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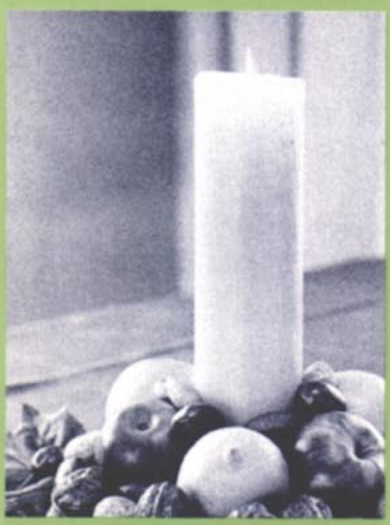
IDEAS ON LIBERTY



Counting Our Blessings

Should We Cancel the National Debt?

Education vs. Democracy

Maverick Mark Twain's Exhilarating American Individualism

NOVEMBER 1995

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IDEAS ON LIBERTY

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PERSPECTIVE

School Choice, 1886 Style

Zach Montgomery, nominated in 1886 for Assistant Attorney General, was falsely accused of having advocated the teaching of Roman Catholicism in the public schools. To be confirmed, he had to defend his position in the U.S. Senate. He was critical, he said, not of the public schools' teachings but of their anti-parental control by the political State.

[T]he chief vice of the [public school] system lies in its usurpation of parental authority, and in its attempting to do for each child, through political agencies, that which can be properly done by nobody else in the world, except by its own father and mother. . . . The question which we are discussing . . . is not whether the Bible ought or ought not to be read in school; nor whether "Johnson's Cyclopedia" is a proper book for school libraries; nor whether a particular class of teachers are or are not the best adapted to school work; . . . nor whether the teaching of religion and the physical sciences ought or ought not to go hand in hand, nor whether good children, who have been carefully and morally trained at home, ought or ought not to be sent to the same school with the vicious and depraved, with the view of reforming the latter. That there is a wide and an honest difference of opinion amongst the American people as to these questions no candid and intelligent citizen will deny. And accepting this honest difference of opinion as an existing fact, the question which we now propose to discuss is this: Does it rightfully belong to the political state to determine these questions for parents and children, and to compel them to submit to its decision? . . .

If the political State has the legitimate power and the rightful jurisdiction to make a binding decision the question—whether it be in favor of or against the use of the Bible in the school—its decision must be equally binding . . . [I]f the State may rightfully, and without trenching upon the doctrine of religious liberty, *forbid* the teaching of the Bible in the schools, to the children of parents whose judgments and consciences demand such teaching, or may *enforce* the teaching of the Bible to the children of those whose judgments and consciences are opposed thereto, it then follows as a matter of course, that the State must have jurisdiction to decide as to which one of all the various versions and translations of the Bible is the correct one. . . . Not only that, but if the State can . . . enforce the teaching of such

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Bible in the schools, against the judgments and consciences of the parents of the children who are so taught, it must also have jurisdiction to decide, as between conflicting interpretations, which is the *meaning* of the various texts of the Bible. . . .

[W]e are not discussing the question as to what kind or whether any religion *ought* or *ought not* to be taught to children; but we are only considering the question as to whether or not it rightfully belongs to the "political State" to determine that question, and in doing so, to override the judgments and consciences of the fathers and mothers of children. . . .

[I]n our humble opinion, the true and proper course to be pursued by the friends of educational reform is to keep prominently before the people as the fundamental, the vital issue, this question, namely: Shall the parent or the political State determine for a child who shall be its teacher, its companions, and what books it shall or shall not study?

—ZACH MONTGOMERY
The School Question

When Is Price Too High?

On the first day of my college Principles of Economics class I often ask students to bring a list of at least five things which they think cost too much. Since I allow them to do this anonymously a few wise guys will start off with such things as cigarettes and beer. But most students approach the assignment seriously.

I quickly dispense with the more frivolous items by suggesting they learn to roll their own cigarettes—something many of them have never heard of—and brew their own beer. After thinking it over they usually decide it is worth the price to have their cigarettes rolled and their beer brewed commercially.

This lays the groundwork for a more serious discussion of how much they estimate it would actually cost for them to produce the "overpriced" items themselves. In most cases they would have to obtain raw materials, arrange for their transport, hire workers, build factories, and so on. The students soon come to realize that they couldn't produce the things they want at any price. They begin to understand the specialization of labor, the complementary function of capital investment, and the role of entrepreneurs in bringing together the factors of production, capital, as well as skilled and specialized workers. Then they begin to look at prices in a different light.

—ROGER CLITES
Professor Clites teaches at Tusculum College in Tennessee.

How to Get from Here to There

It is not difficult to criticize current government programs. With some understanding of basic free market principles, it is also possible to describe the ideal free market society of private enterprise and open competition. But it is not so easy to outline steps to take us from here to there, from our present hampered market economy, to, or at least toward, a free market.

Granted, it wouldn't be easy for everyone to adjust if their subsidies and protective regulations were removed. Producers and consumers of many goods and services, who have become accustomed to government subsidies and/or government-guaranteed "protection," would have to learn to be self-reliant. They would have to rely for support, not on the taxpayers, but on those who actually used their goods or services. But such adjustments are possible.

At times when government interventions become intolerable, people begin to ignore them even while the subsidies and regulations are still in place. Innovative and ingenious individuals conceive of new solutions to old problems that fall outside the purview of government controls and regulations. For instance, government postal systems throughout the world are already being superseded by private express delivery services, telephones, fax machines, and e-mail. The public schools are being increasingly bypassed by parents who homeschool or send their children to private schools. And when government money systems have been inflated until commercial transactions become impossible, people turn to barter and alternate moneys. Under present conditions, only the gold standard can rescue us from the ever-present threat of inflation. Yet few economists have given much thought to "privatizing" money and reviving gold as money. In this issue, several articles discuss this problem and review the proposals that have been made for restoring the gold standard.

—BETTINA BIEN GREAVES
November Guest Editor

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Should We Cancel the National Debt?

by Daniel J. Pilla

This question is popping up more and more. The idea of canceling the debt seems to gain support in direct proportion to the increase in the debt itself. Should we or shouldn't we? At present levels, the national debt is about $5 trillion. It grows by hundreds of billions each year. Current levels of federal spending will add about $1 trillion more in debt over the next four to five years.

As the debt grows, government's interest burden grows with it. The more of our tax dollars consumed by interest, the fewer dollars available for discretionary spending. What's worse, more pressure is then exerted to use tax increases to fund mandatory spending programs, such as Social Security, Medicare, and Medicaid. To illustrate how the interest burden is growing, consider this: in 1963, the federal government spent just 6.9 percent of its total budget on net interest. By 1993, the total interest outlay was 14.1 percent of total spending. But judging interest as a percentage of *spending* is not the real story. We all know government spends more than it collects. The federal interest burden exists simply because government, like you and me, must actually *service* its debt. Interest, of course, represents the cost of debt service.

To see a true measure of the problem, we should examine interest payments as a percentage of revenue *collected*, not as a percentage of total spending. Congress only spent a total of $92.642 billion in 1963. What's more, the federal government ran a very small deficit. As a result, the amount of interest paid as a percentage of revenue *collected* was still around 6 percent. By 1993, however, Congress collected $1.153 trillion, and spent $292.502 billion on net interest. That puts the interest component of total federal revenue at 25.3 percent of revenue collected. As you can see, that is nearly double the less telling number of 14.1 percent.

This problem is exacerbated when we add to the mix the question of entitlements. Entitlements include those programs which guarantee a payment to citizens. Chief among them are Social Security, Medicare, and Medicaid, but entitlements also include federal pensions of every description. As these mandatory spending demands increase along with interest payments, the government's latitude to spend elsewhere, including for defense, is greatly inhibited. Consider this observation from the opening remarks of the Final Report of the Bipartisan Commission on Entitlement and Tax Reform. At page 4, we are handed this most sobering bulletin: "The gap between federal

Mr. Pilla is a tax litigation consultant and author of eight books on successful methods of dealing with IRS abuse. He is editor of the Pilla Talks Taxes *newsletter and has appeared on over 2,500 radio and TV talk shows discussing taxpayers' rights issues.*

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spending and revenues is growing rapidly. Absent policy changes, entitlement spending and interest on the national debt will consume almost all Federal revenues in 2010. In 2030, Federal revenues *will not even cover* entitlement spending." (emphasis added)

Even if Congress resolved to balance the budget tomorrow (which we know it will not do, since it turned away the Balanced Budget Amendment), it will continue to face and be forced to handle interest on the $5 trillion debt it has already amassed. Market conditions, not the government, will dictate what interest rates will be paid. As a result, the question of its interest burden is largely uncontrollable.

The next question then is, why not begin paying off the debt? That of course is what a reasonable person would do, and that is what every American family would have to do under similar circumstances. But before it would make sense for you to start paying off your debt, before it would do any good for you to do that, you must first stop going further into debt. And this the federal government has steadfastly refused to do.

In his *Wall Street Journal* article of February 9, 1995, Stephen Moore, director of fiscal policy studies at the Cato Institute, discussed some problems inherent in paying off the existing national debt. The following is a portion of Mr. Moore's observations:

> Here's an experiment. What if we were to try to pay off the $4-plus trillion national debt by having Congress put one dollar every second into a special debt buy-down account? How many years would it take to pay off the debt? One million seconds is about 12 days. One billion is roughly 32 years. But one trillion seconds is almost 32,000 years. So to pay off the debt, Congress would have to put dollar bills into this account for about the *next 130,000 years*—roughly the amount of time that has passed since the Ice Age. Even if we were to require Congress to put $100 a second into this debt-buy-down account, it would still take well over 1,000 years to pay the debt down. (emphasis added)

Neither Moore nor Cato has specifically called for repudiating the national debt. However, others have. And the call is not new, but facts as sobering as those Steve Moore presented provide fuel for the fire. The day Moore's article appeared in the *Journal,* Rush Limbaugh began talking about repudiating the debt. Like Moore, he did not specifically say the debt should be repudiated. However, he misunderstood the clear message of the article.

The underlying premise of the article was not to suggest or argue for repudiation of the debt. Rather, it was to emphasize the magnitude of the problem and to create a sense of urgency for the idea of a *balanced budget.* As I said earlier, the debt cannot even begin to be addressed until we begin to live as a nation under a balanced budget. That is the mandatory first step. Without taking that step, nothing else matters. Instead of realizing that point from the article, Rush Limbaugh used the facts presented to jump to the conclusion the debt could "never be paid." He did not specifically state it should be repudiated, but he did say economists should begin to address the ramifications of doing so. In response to a caller who phoned with his position on the matter, Rush contended he did not understand the full ramifications of repudiating the debt, and thus stopped just short of making the claim.

To Repudiate or Not

So, my question to you is, based upon the above facts, should we repudiate the debt or not?

Before we answer the question, let us understand exactly what constitutes the "national debt." We hear the term over and over, but we also hear much misinformation about it. For example, we should begin by learning to whom this debt is owed. Many times, politicians will say, "We owe it to ourselves." In fact, one of the callers to the Rush Limbaugh program that day said, "If we owe it to ourselves, why *not* just repudiate it?" If you owed your home mortgage to "yourself," you might be inclined to cancel the debt. And if you did, what difference would it make? Who, if anybody, would be hurt by that act? If you truly

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"owed it to yourself," perhaps nobody would be hurt.

Let us understand, however, that the United States does not owe the money "to itself." Just as you owe your home mortgage to the organization that loaned you the money to allow you to purchase it in the first place, the federal debt is owed to *specific creditors*. How does one become a creditor of the United States? To finance its deficit spending, the federal government must do exactly what you and I do before we can spend money we do not have. It must first *borrow* that money. When the United States borrows money, it must enter into a promise to repay the debt. It is no different than your home mortgage. If you borrowed $100,000 to buy or refinance a home, you must guarantee the bank you will pay back the principal, with interest at a stated rate, within a stated period of time.

Bonds and Bondholders

When the United States borrows money, it does much the same thing. Instead of signing a mortgage note, however, government issues debt instruments. The debt instruments assume three forms. Long-term debts take the form of *bonds,* medium-term debts take the form of *notes,* and short term debts take the form of *bills*. When the United States overspends by, say, 300 billion in a given year, it raises the money to pay the difference by issuing these debt instruments. The Treasury first decides how much of the debt is to be financed through long, medium, or short term obligations. It then offers these obligations to the public through an auction. For simplicity's sake, I will refer to all government debt instruments as bonds.

The government debt instruments—bonds—are purchased at auction at a discount to their face value. The deeper the discount, the higher the rate of interest the government will pay to the bondholder. The smaller the discount, the lower the rate of interest the Treasury will pay. The bond discount rate, and hence the interest rate, is largely determined by Federal Reserve interest rate settings and the market place. The point is, government does not set the rate. Bonds are sold, like anything else at auction, to the highest bidder, assuring the lowest rate for that particular issue.

The bond is an obligation not unlike your own mortgage note. The United States agrees to pay the bondholder a specific principal, at a stated interest rate over a fixed period of time. The entirety of the federal debt, some $4.8 trillion, is financed in this manner. Thus, the United States *does not* owe the money to "itself," it owes the money to bondholders. They are the parties who lent their cash to the government to finance its operations.

But who are these bondholders? When the Treasury offers bonds for auction, the largest segment of the bonds are purchased by major brokerage houses. Institutions such as Salomon Brothers and Merrill Lynch purchase major blocks of these debt instruments. They in turn resell them to individual investors. Of course, they sell them at a rate which allows the brokers to make money on the transaction. However, the brokerage fee can easily be avoided by purchasing bonds "Treasury direct," which in effect, bypasses all broker middlemen.

The ultimate purchasers of government bonds fall under three categories: (1) foreign governments, (2) institutional investors, such as banks, insurance companies, mutual funds and pension funds, and (3) individual citizens. This answers the question "To whom do we owe the money?"

In the February 1995 Treasury auction of two- and five-year notes, we find that more than $25 billion was raised through "competitive tenders from the public." In addition, another $1.5 billion was awarded to "Federal Reserve Banks as agents for foreign and international monetary authorities." (See *Public Debt News,* U.S. Treasury Department, February 22, 1995.)

Repudiation Fallout

Now that we understand to whom we owe the debt, let us explore the likely consequences of repudiating the debt. I have

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classified the fallout into three types of problems: small scale, medium scale, and large scale. Let us take them in ascending order.

Small-Scale Problem. From the government's point of view, a small-scale problem is created for the individual holders of government bonds. If the federal government defaults on payments, those owners—a person here, a person there—lose part of their savings. To the extent that that person invested to save for his retirement, to build a college fund, or to buy a home, that money is lost. Is that the end of the world? Ask the guy who loses his savings. If he's young enough to recover over time, maybe not. Maybe he can swallow the fact that his money was stolen from him by a dishonest government. Maybe he can work extra hard in the remaining productive years he has left to make up the difference. Maybe.

What about those millions of older or retired citizens who have invested heavily in government bonds because of the "guaranteed" safety and return on investment? Suppose such a person is 65 years old. Suppose his entire life savings is invested in bonds, and he is dependent on the interest every month to keep him out of soup lines. How will that person recover from having his money stolen from him by a dishonest government?

Medium-Scale Problem. If you're not an owner of government bonds, what do you care? If those people were shortsighted enough to put all their eggs in one basket, maybe they deserve what they get. Maybe you don't have to worry because your money is invested with your insurance company, or mutual fund, or even better, in your company's pension fund. But maybe you should worry.

The largest investors in government bonds are institutional investors such as these firms and banks. With nearly $3.5 trillion in pension cash alone invested throughout the world, a huge share of that money is in "guaranteed" government bonds. There are hundreds of billions more invested through insurance companies. Add to that the billions in mutual fund investments and you start to appreciate the problem is quite a bit broader than just a few old people losing some spare change.

I submit to you that if you have any kind of life insurance policy, pension fund, or mutual fund investment of any kind, *you* are the proud owner of federal government bonds at some level. If the government defaulted on these obligations, it would send shock waves through the entire financial market. It would destabilize much of the insurance and pension sector, and could spell the outright destruction of countless mutual funds. Even if you do not own an insurance policy or pension fund of any kind, I would be surprised if you did not have a bank account. Banks also invest heavily in government bonds.

I suspect that if the federal government were to default on bond debts owed just to the banking industry, the fallout would make the S&L crisis look like a mere bank overdraft. In fact, by defaulting on government bonds owed to banks, my guess is the entire commercial banking industry would be destabilized, risking the money of every depositor, large and small.

Large-Scale Problem. But even if the financial markets were rocked, pension and insurance funds were lost, and millions upon millions of American citizens lost money to a dishonest government through bank closures, that is not even the worst of it. The worst is the effect it could have on our world trading partners and military allies. Hundreds of billions more in federal debt are owned by foreign governments, foreign insurance companies, and foreign mutual funds. Japan alone has helped finance American deficit spending for decades, to the tune of billions. If the federal government defaulted on debts owed to these foreign investors, our government would likely face financial retaliation of immeasurable proportion.

For example, I could well imagine all assets of U.S. investors in foreign nations being frozen by that government. You don't think that can happen? The United States does it all the time. Remember the Gulf War? After Iraq invaded Kuwait, some $2

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billion in Iraqi assets held in U.S. banks were frozen by executive order of President Bush. If we can do it to foreign investors in the United States, why can't foreign governments do it to U.S. investors?

And that may not even be so bad. What could be worse is the prospect that a foreign government may *nationalize* the assets of U.S. companies located in that country. By the way, the term *"nationalize"* is how governments refer to the act of stealing what does not belong to them. Is it all that hard to imagine, for example, the government of France or Germany nationalizing the assets of Ford Europe in an effort to recoup its own losses? During the 1950s, U.S. businesses lost billions when Castro's government took over Cuba and nationalized *all* U.S. assets held in that nation.

Even if the affected foreign governments did not openly retaliate against U.S. assets held in their country, what effect do you suppose repudiation of debt will have on our military alliances? Do you suppose the governments of the Western world will be so quick to jump to the aid of any United States interest after they have had billions stolen from them by a dishonest government? Don't bet on it.

The bottom line is, repudiation of the federal debt would be fundamentally immoral. It would constitute a dishonest act of the highest order. The ramifications would be felt in every home in the country, and every capital in the world. The United States could be ruined politically, financially, and perhaps militarily. After all, how many of our government's military actions are financed through borrowing?

But, as the saying goes, every cloud has a silver lining. If the government of the United States repudiated its debt to investors, you can be sure we would have a balanced budget, whether Congress liked it or not. *That is because nobody would ever lend the United States another dime!* □

How to Destroy Wealth

by Richard W. Stevens

Anyone can demonstrate the fundamental flaw in the welfare state by engaging in a simple experiment which illustrates that the coercive "redistribution" of wealth destroys wealth. Legislators who take funds from taxpayers coercively to create "wealth" by building a dam in Colorado or a library in Pittsburgh, for instance, actually destroy wealth. This simple experiment with my two sons shows how.

Mr. Stevens is a lawyer and teaches Legal Research & Writing at George Washington University National Law Center.

Andrew, age eight, enjoys books about magic and riddles. Jason, age six, loves construction toys like dump trucks and cranes. One Saturday afternoon, I took from Andrew his books of riddles and magic and gave them to Jason. I took from Jason his construction toys and gave them to Andrew.

Rebellion erupted. Both boys complained that my naked exercise of power was not fair. I explained that I had not damaged their toys in any way; the total money price of the things they had received was the same as what they had given up; they should both be just as happy as before the swap.

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The boys screamed and yelled. In the first place I had forcibly interrupted their play. They might soon get over this, they said, if I would only return their original toys. They even admitted that if I gave them something extra, "something really neat," they might be willing to forgive the interruption. However, I had forcibly taken away their favorite toys and this was unjust on its face. How would I feel, they asked, if someone came and took my chess computer away from me? I told them they hadn't really lost anything— it was as if I had taken a five dollar bill from each of them and given them each another five dollar bill. The money value of the toys each had received was the same. They had both gotten something of equal money value. But they weren't mollified.

The boys had a difficult time explaining another reason for their resentment, but it was no less real. By taking away the toys they valued most, and giving them toys they valued less, I had stolen something of value from them—their fun, their satisfaction. Although the toys had not lost *money* value, the *real* value of their toys had decreased through the redistribution. The market price of Andrew's books and that of Jason's construction toys were about the same. But in Andrew's hands the books were more valuable than the trucks and cranes. And to Jason the trucks and cranes were more valuable than the books on magic and riddles. By the redistribution both had lost value. The fact that they cost about the same in dollars was immaterial. Their values in the eyes of Andrew and Jason were neither objective nor measurable; they were subjective "psychical and personal," as Ludwig von Mises wrote.[1]

When I left the boys alone and told them they could trade back again, they promptly did so, grumbling as they did about why Daddy had bothered them in the first place.

This simple experiment demonstrates several economic truths. First, economic values are subjective. The fact that the books and trucks cost the same was immaterial.

Second, no outsider, no parent or government official can forcibly redistribute goods from one person to another without decreasing the satisfaction of at least one of the parties. Andrew and Jason had already arranged their toys to satisfy their personal wants and interests. By forcibly interfering, I had reduced the satisfaction of both boys, as they told me in no uncertain terms.

Third, exchanges of goods of equal monetary value are not equal exchanges. The objective "market value," i.e., the price of a good is not the same as the subjective value in the minds of the particular persons involved. Individuals trade goods voluntarily with one another only if each expects to receive in return something that will be more valuable to him or her than what he or she is giving up.

Fourth, there is no way to compare the unhappiness of two different people. From their yells I could tell that neither Andrew nor Jason liked the new order of things. Yet there was no way to judge whether one child was harmed more or less than the other. We cannot measure the harm that forced transfers cause to people, but we know the harm exists.[2]

This little experiment with Andrew and Jason shows that transferring wealth forcibly from some individuals to others interferes with the voluntary arrangements people make among themselves, destroys personal subjective values, and actually reduces the amount of wealth in society.[3] Thus social programs that aim to improve the lives of some persons by taking funds forcibly from others are bound to destroy wealth in society—although there is no way to measure how much. □

1. Ludwig von Mises, *Human Action*, 3rd rev. ed. (Chicago: Henry Regnery Co., 1966), p. 97.

2. *Human Action*, pp. 204–205; *cf.* Henry Hazlitt, *Economics in One Lesson* (Norwalk, Conn.: Arlington House, 1970), pp. 31–34.

3. Murray Rothbard, *Power & Market: Government & the Economy*, 2nd ed. 1977, Kansas City, Kan: (Sheed Andrews and McMeel, Inc.).

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THE FREEMAN
IDEAS ON LIBERTY

Education vs. Democracy

by Sheldon Richman

Part of the allure of public, or, more precisely, government-run, education is its supposed democratic nature. Most citizens see a virtue in having the schools set in the arena of majority rule, where "the people" are said to be the ultimate decision-makers. It is taken as self-evident that the greatest accountability is to be found in that arena and to even suggest removing the schools from the democratic process would deal a mortal blow to education.

But is democracy really good for education? The implicit belief in its goodness has gone too long unexamined. Democracy is sacred in American culture, and so to suggest that it is detrimental to anything is a secular heresy. Nevertheless, I'll argue that democracy is inimical to education, if by "education" we mean the family-based assisting of children to become moral, competent, and well-rounded human beings.

The Essence of Democracy

A critique of democracy in the context of education can't help but begin with a look at democracy per se. The sacred mantle draped over the democratic process obscures something rather profane. What is thought to be the rule of the majority turns out in actuality to be the rule of well-organized minorities, or special-interest groups.[1] A chief reason for that fact is the phenomenon, discussed at length in the Public Choice literature, of dispersed costs and concentrated benefits. Most government programs entail a small cost to any individual (although the aggregate cost may be immense). Thus, most people will have little incentive to actively oppose a given program; it just isn't worth the time and effort. In contrast, the benefits are great to a smaller, well-organized group of citizens. It *will* pay them, or the trade group they support, to lobby energetically for "their program." That essentially is why the United States has programs to benefit farmers and steel manufacturers, for instance, though consumers of farm products and steel far outnumber producers of farm products and steel.

That unromantic fact about democracy—that well-organized minorities not unorganized majorities rule—is well established in the literature of political economy.[2] As important as it is, however, it's not crucial to the present purpose. After all, it is a secondary issue whether majorities impose on minorities or minorities impose on majorities. Of primary importance is that *someone imposes something on someone else*. I find it peculiar indeed that freedom and democracy should so often be coupled when by its nature, democracy requires that some people be forced to abide by the will of others. What leads so many to embrace this dubious idea is the belief that democracy is the only peaceful alternative to autocracy, in which one person's will is imposed on everyone. Let someone get wind of your aversion to democracy and sooner or later you'll be accused of favoring authoritari-

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anism. (America's greatest antidemocrat, H. L. Mencken, was so accused repeatedly.)

It seems not to have occurred to the enthusiasts of democracy that there is a third alternative: individual liberty. Or if they thought of that alternative, they rejected it as a comprehensive solution on the ground that public-goods and free-rider problems make some form of collective decision-making necessary at least for some purposes. Some things, it is said, cannot be left to the voluntary sphere, in particular, things that when provided to some are simultaneously provided to all and that are consumed nonrivalrously.[3] These twin traits are said to rob entrepreneurs of the incentive to produce any such good or service or, at least, to grossly underproduce them. In either case, the will of the people is thwarted. Governmental production, that is, coercive, tax-financed provision, is proposed as a remedy for such "market failure." That theory, for all its elegance, has taken a beating in the last few decades from a variety of economists, political scientists, and game theorists. It seems that there is less to the public-goods problem than meets the eye.[4]

The Free-Rider Argument

Theorists have made an equally important counterargument with respect to the purported solution to the alleged problem, namely, government. Several authors have exposed the free-rider objection to the market as a boomerang: when hurled at the advocates of the market, it circles back to hit the thrower square in the back of the neck. In other words, the same objections made to voluntarism are applicable to the state. Any generally beneficial government services are provided to all and are consumed nonrivalrously. Taxation is supposed to overcome that problem, but the problem runs deeper than that. Why should any individual citizen participate in a campaign for generally beneficial legislation or decent candidates when he can free-ride on the efforts of others? Why should anyone vote? One vote makes little difference. If the free-rider problem is insurmountable, legislation and candidates that would truly benefit all citizens will be "underproduced" by the political system. That leads to the preponderance of special-interest government action referred to earlier. Such action bestows great benefits on a relatively small group, while spreading the costs across the whole of society. Moreover, unlike in the market, when a "public good" is obtained through government, the beneficiary group pays only a small portion of the costs, since government shifts most of the expense to the taxpayers. "This makes it possible for organized groups to get the state to provide bogus public goods, goods and services which in fact cost much more than the beneficiaries would be willing to pay even if exclusion were possible and they could not free-ride. In this manner, the state generates externalities, and ones that are negative. Rather than overcoming the free-rider problem, the state benefits free-loaders. . . ."[5]

The advocates of democracy believe that the free-rider problem can be overcome; after all, many people vote. But if that's so, why then can't it also be overcome in the marketplace? Could it be the case that the free-rider phenomenon is not necessarily insurmountable?[6]

Those problems aside, it is far from clear that the public-goods problem even applies to education. Nonpayers can be excluded from the schoolhouse. Moreover the resources used in education are scarce and thus are consumed rivalrously.[7] The only sense in which there is a free-rider phenomenon—everyone benefits from a well-educated society even if we don't pay for others' education—applies equally well to myriad features of society. Indeed, the very notion of society includes spillover benefits from people's self-interested activities. Spontaneous orders, such as custom, the market, money, and language, by definition include what economists call positive externalities. But that is no reason for government to take over those institutions. As a matter of fact, most of the benefits would disappear if government did so.

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Democracy

The essence of democracy, as I've said, is that one group imposes its will on another. Let's see how that's so. In a representative democracy, such as the United States, citizens typically vote not on particular issues but for members of legislatures and school boards. The "representatives" then vote on legislation and policies to govern their particular jurisdictions. Obviously, all those votes entail losers. Citizens who voted for the losing candidates are bound nonetheless by the winners' decisions, and citizens whose representatives are on the losing side of legislative votes are likewise bound by the decisions of the representatives who prevail. (We'll skip the added complication that representatives often break campaign promises.)

A classic defense of the system was made in an essay by Anthony Downs, who wrote:

> The basic arguments in favor of simple majority rule rest upon the premise that every voter should have equal weight with every other voter. Hence, if disagreement occurs but action cannot be postponed until unanimity is reached, *it is better for more voters to tell fewer what to do than vice versa.* The only practical arrangement to accomplish this is simple majority rule. Any rule requiring more than a simple majority for a passage of an act allows a minority to prevent action by the majority thus giving the vote of each member of the minority *more weight* than the vote of each member of the majority.[8]

The late liberal Italian jurist and political scientist Bruno Leoni, however, demolished Downs' argument that majority rule assumes that "every voter should have equal weight with every other voter." He pointed out that in fact "we give much more 'weight' to each voter ranking on the [winning] side . . . than to each ranking on the [losing] side. . . . The fact that we cannot possibly foresee who will belong to the majority does not change the picture much."[9] In other words, Leoni argued, when a bare majority prevails in an electorate of 100, 51 have the weight of 100 and 49 the weight of zero.[10]

The problem, of course, is that the legislative process is a winner-take-all matter. That fact refutes the various attempts of political scientists to liken the process to the marketplace. As Leoni noted:

> Only voters ranking in winning majorities (if for instance the voting rule is by majority) are comparable to people who operate on the market. Those people ranking in losing minorities are not comparable with even the weakest operators on the market, who at least under the divisibility of goods (which is the most frequent case) can always find something to choose and to get, provided they pay the price.[11]

In the legislative process, Leoni argued, you either get what you asked for or you get nothing. "Even worse, you get something that you do not want and you have to pay for it just as if you had wanted it."[12] That makes the legislative process, he added, more like the battlefield than the marketplace. In an imaginative application of the Ludwig von Mises' criticism of socialism, Leoni also compared the legislative representative to the central economic planner; by the very nature of their systems, both are cut off from information that is critical to the jobs they are theoretically doing because the spontaneous processes that produce that information are squelched. As he put it:

> No solemn titles, no pompous ceremonies, no enthusiasm on the part of applauding masses can conceal the crude fact that both the legislators and directors of a centralized economy are only particular individuals like you and me, ignorant of 99 percent of what is going on around them as far as the real transactions, agreements, attitudes, feelings, and convictions of people are concerned.[13]

Democracy and the Schools

We see the truth of those insights in the controversies over education. In school districts throughout the nation, communities are torn over such issues as whether condoms should be distributed, whether young children should be exposed to the issue of homosexuality, whether books offensive to parents should be required reading, whether

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reading should be taught by the "whole language" method instead of phonics, whether and what values shall be taught, and so on. Since a majority vote of school-board members decides those controversies, parents represented by members voting in the minority are effectively disfranchised. They must abide by the majority decision. Even if they take their children out of the schools, they must go on paying for a system they abhor.

An additional problem with democratic rule over schools is that nonparents have the same voting rights as parents, despite the greater stake of the latter. The public-goods theory of education (see above) is invoked to tax everyone in a community, including nonparents and people with grown children, to support the government schools. But if those people are taxed, they must also be permitted to vote or else they become victims of taxation without representation. Thus the votes of parents are diluted by people who, at best, have only a small stake in the schools. As John Chubb and Terry Moe have written:

> The fundamental point to be made about parents and students is not that they are politically weak, but that, even in a perfectly functioning democratic system, the public schools *are not meant to be theirs to control* and are literally not supposed to provide them with the kind of education they might want. *The schools are agencies of society as a whole*, and everyone has a right to participate in their governance. Parents and students have a right to participate too. But they have no right to win. In the end, *they have to take what society gives them.*[14]

Government schools, in other words, are not the agents of parents and their children. Others besides them pay and therefore help call the tune. That inevitably turns the schools into laboratories for social engineering. No parent would want children's shoe stores run that way. It is hard to believe that's the education system parents would choose, given a free choice.

Democratic control of schools, then, necessarily usurps parents' child-raising authority. The big decisions—such as the selection of schools and curricula—are made by others. Whatever the intentions, government schools rob families of essential freedom and responsibility.[15] From any standpoint, it cannot be good for parents to bring children into the world expecting someone else to educate them. Considering that the most critical factor in the success or failure of children's education is the family, a school system that devitalizes families would seem a particularly self-defeating institution.

Democracy also bureaucratizes schools. Since government schools procure their revenue and students by compulsion, and do not face a profit-and-loss test, the normal accountability of a firm to its customers is absent. Simply put, parents cannot take their business elsewhere. If they wish to change school policy, they must undertake a costly campaign to elect a new school board. But that strategy is plagued by the free-rider problem discussed above. The contrast, in this regard, between a democratic institution and a market institution could not be more stark. Lord Beveridge put the problem in general terms:

> In a totalitarian State or in a field already made into a State monopoly, those dissatisfied with the institutions that they find can seek a remedy only by seeking to change the Government of the country. In a free society and a free field they have a different remedy; discontented individuals with new ideas can make a new institution to meet their needs. The field is open to experiment and success or failure; secession is the midwife of invention.[16]

Bureaucratic schools display all the features of classic bureaucracies: poor service, inefficiency, bloated budgets, empire-building, turf-protection, capture by special interests such as teachers unions, and more. In his great work *Bureaucracy*, Mises showed that a bureaucracy's "main concern is to comply with the rules and regulations, no matter whether they are reasonable or contrary to what was intended."[17] As Chubb and Moe wrote:

> Institutions of democratic control are inherently destructive of school autonomy and inherently conducive to bureaucracy. This

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> happens because of the way all the major participants—politicians, interest groups, bureaucrats—are motivated and empowered by their institutional setting to play the game of structural politics. . . . Schools, we believe, are the products of their institutional settings. . . . Our reasoning is that much of [the bureaucratization of the schools] is an inevitable and logical consequence of the direct democratic control of schools.[18]

In sum, then, democratic rule produces schools that are unaccountable, detrimental to families, bureaucratic, and incompatible with individual freedom. What does anyone see in them?[19]

Bruno Leoni may not have had schools in mind when he lamented the "large area occupied" by democratic rule, but his insight is fully applicable to them.

> I am convinced that the more we manage to reduce the large area occupied at present by group decisions in politics and in the law, with all their paraphernalia of elections, legislation, and so on, the more we shall succeed in establishing a state of affairs similar to that which prevails in the domain of language, of common law, of the free market, of fashion, of customs, etc., where all individual choices adjust themselves to one another and no individual choice is ever overruled.[20]

The task of shrinking that large area now under occupation by the political authorities can begin at no better place than the government schoolhouse. □

1. To sum it up in an aphorism: "Democracy: in theory, the tyranny of the majority; in practice, the tyranny of minorities." Of course, I'm using *minorities* here in the purely numerical sense.

2. The classic work on this and related issues is Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups*, 2nd ed. (Cambridge, Mass.: Harvard University Press, 1971). I leave aside here the valid point that even democratic governments achieve an important degree of autonomy from those they purportedly represent. See Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987), p. 63.

3. The classic case was held to be a lighthouse. Nonpayers can use the light as well as payers, and no one's use diminishes the beam. Thus, it was said that the market would not produce, or would underproduce, lighthouses. Broadcast television and radio seem to have the same characteristics—which should lead to some skepticism that they rule out profitable provision in the market.

4. For example, Nobel laureate Ronald Coase discovered that lighthouses were provided privately in England for more than a century before being taken over by the government. For Coase's paper and for other critical analyses of the public-goods problem, see Tyler Cowen, ed., *The Theory of Market Failure* (Fairfax, Va.: George Mason University Press/Cato Institute, 1988). David Friedman points out that without a market, the government would not know if the value of, say, a dam, exceeds the cost. See also, *The Machinery of Freedom: Guide to a Radical Capitalism* (1973; LaSalle, Ill.: Open Court, 1989), pp. 135–43, as well as David Schmidtz, *The Limits of Government: An Essay on the Public Goods Argument* (Boulder, Colo.: Westview Press, 1991).

5. Jeffrey Rogers Hummel and Don Lavoie, "National Defense and the Public-Goods Problem" in Robert Higgs, ed., *Arms, Politics, and the Economy: Historical and Contemporary Perspectives* (New York: Holmes & Meier, 1990), p. 44.

6. For a full discussion of these issues, see *ibid.* Also see Joseph P. Kalt, "Public Goods and the Theory of Government," *Cato Journal* 1 (Fall 1981): 556–84. As I've heard Hummel put it, if the free-rider problem is soluble, state provision is unnecessary; if the problem is insoluble, state provision is impossible.

7. On whether the public-goods problem applies to education, see *Separating School and State: How to Liberate America's Families*, pp. 19–20, and E. G. West, *Education and the State: A Study in Political Economy*, 3rd edition, revised and expanded (1970; Indianapolis, Ind.: Liberty Fund, 1994).

8. Anthony Downs, *In Defense of Majority Voting* (Chicago: University of Chicago, 1960), quoted in Bruno Leoni, *Freedom and the Law*, expanded 3d ed. (Indianapolis, Ind.: Liberty Press, 1991), p. 237.

9. *Ibid.*

10. Leoni agreed that simple majority rule is consistent with "strongly organized minorities" imposing their will. He finds proposals for supermajority rule no better. *Ibid.* p. 242ff. See James Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor, Mich.: University of Michigan Press, 1962).

11. Leoni, p. 235.

12. *Ibid.*

13. *Ibid.*, p. 23; see also pp. 20–23, 112–32.

14. John E. Chubb and Terry M. Moe, *Politics, Markets and America's Schools* (Washington, D.C.: Brookings Institution, 1990), p. 32. Emphasis added. Children, of course, get no vote at all.

15. Intentions have not always been praiseworthy. See Richman, pp. 37–52.

16. Lord Beveridge, *Voluntary Action* (London: Allen and Unwin, 1948), p. 58. Emphasis added.

17. Ludwig von Mises, *Bureaucracy* (1944; New Rochelle, N.Y.: Arlington House, 1969), p. 41. See also the classic by William A. Niskanen, Jr., *Bureaucracy and Public Economics* (Brookfield, Vt.: Edward Elgar, 1994).

18. Chubb and Moe, pp. 47, 67, 183. Education bureaucracies suffer in microcosm from the same "knowledge problem" as socialist economies. See Sheldon Richman, "Knowledge, Ignorance, and Government Schools," *The Freeman* 45 (June 1995): 340–43.

19. In Virginia, because of the number of students, some public-school children must eat lunch at 10:15 a.m. Do the schools serve the interests of children, or vice versa?

20. Leoni, p. 130.

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Teachers as Entrepreneurs in the Classroom

When the socialist economies of the Soviet bloc disintegrated in the 1980s, the cause was evident to nearly everyone: the stifling directives of central planning had all but obliterated individual initiative and accountability. The cure was just as obvious: a healthy dose of entrepreneurship and private enterprise.

That lesson is relevant to today's debate over education reform in America, though it's a lesson still ignored by too many of the "reformers." The reform debate is cluttered with proposals for top-down mandates and directives that start from the implicit premise that teachers must be lifetime government employees and must be told what to do. If the new leaders of the Soviet bloc had simply replaced old central plans with new ones, without creating markets or empowering private citizens to be their own bosses, we would hardly call the result "reform" at all.

The most promising models for improving education are those that would infuse the virtues of the marketplace into the education system—and in a way that inspires teachers. One particular reform idea that would help accomplish that is the subject of a new report issued jointly in Michigan by the Mackinac Center for Public Policy and the Reason Foundation, titled *Teacher, Inc.: A Private Practice Option for Educators*. The report's author, Janet Beales, makes a powerful case for teachers as classroom entrepreneurs. In those places where it has already taken root, it is showing the potential to transform the way education is delivered and the careers of tens of thousands of teachers. Known as "private-practice teaching," it requires a lot of creativity and willingness to break with the status quo on the part of union leadership, school administrators, teachers themselves, legislators, and the general public.

Private-practice teachers are professional educators who provide their services to schools on a contract basis. Instead of being an employee of a school district—subject to all its rules and suffocating bureaucracy—a teacher can be owner of a professional practice or employed by a private educational service firm. It's not for every teacher—and certainly not for the risk-averse—because a private-practice teacher effectively gives up the safety net of district employment, collective bargaining, and tenure. But for those teachers who yearn to drive their own careers and have good ideas to market, the entrepreneurial freedom this option offers can be the liberating stimulus they've been looking for.

Beales paints a picture of many different forms of private-practice teaching. Imagine English teachers forming English instruction firms or science teachers offering innovative methods of science pedagogy under the banner, "Science Teachers, Incorporat-

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ed." Teachers in private practice could contract with schools or school districts to provide specialized instruction in remedial education or foreign languages. They could tutor students with special needs one at a time or teach entire classrooms. Some teachers might want to run their own business, taking on the dual responsibilities of teacher and business manager, while others would want to focus strictly on teaching by working for an established education company—perhaps even a company started by colleagues or local parents.

Still others might specialize in training teachers to teach—with more incentive for better results than we now get from the education departments of state universities. In any event, private-practice educators who do a good job will find their services in demand and their contracts renewed, while those who perform poorly at least would not be perpetual burdens on both children and taxpayers.

For freedom advocates, it doesn't matter where one stands on vouchers, tuition tax credits, and other prickly issues of government's role or private versus public schooling. Private-practice teaching can be an improvement for *any* educational environment. It can begin to create real markets for teaching—and all the dynamics that real markets promote on behalf of excellence and customer service. Free markets for teachers who compete and innovate and sell their services to customers might make it easier to achieve free markets for schools too.

Teachers as entrepreneurs in a competitive education marketplace is a vision that many accustomed to the status quo will find difficult to accept. Pointing the way, however, are successful examples from around the country. Educator Robin Gross of Bethesda, Maryland started Science Encounters more than a decade ago and now employs 20 full and part-time teachers who provide hands-on learning programs to private and public elementary schools in and around the nation's capital. Former tutor Evelyn Peter-Lawshé started Reading and Language Arts Centers in 1991 and now serves over 800 clients in the Detroit area, teaching students and training teachers who earn continuing education credits in the process. Sylvan Learning Systems provides tutoring, testing, and test-preparation courses to students through more than 500 franchised and company-owned centers in the United States and Canada, according to Beales. Other examples are appearing on the educational scene now with regularity.

If you think teacher unions will never buy into the concept of allowing schools to contract out to private companies, it might be useful to consider a lesson from my state of Michigan. The Michigan Education Association (MEA) represents most public school teachers and many school janitors and food service workers in the state. It publicly opposes any kind of privatization, but in its own headquarters in East Lansing, the MEA contracts out for such services as food, custodial, mailing, and security—and usually with non-union private companies!

When the most powerful state teacher union organization in America practices "privatization," a new awakening may be taking place. Reformers have a powerful rhetorical opportunity here—either we can persuade the MEA and its like-minded sister unions in other states of their hypocrisy when they oppose privatization, or we can drive home the point to teachers and parents that the unions don't really have their interests foremost in mind after all. Trimming the privileged sails of coercive teacher unions, in any event, may be inescapably necessary on the path to liberating teachers themselves.

One size doesn't fit all teachers. A lifetime of public employment in the conventional setting of bureaucracy and politics need not be the only option. For those teachers who want new professional opportunities and for children who would benefit from educators animated with new incentives, private-practice teaching is a reform idea whose time has come. □

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THE FREEMAN
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The Solution

by Murray N. Rothbard

To save our economy from destruction and from the eventual holocaust of runaway inflation, we the people must take the money-supply function back from the government. Money is far too important to be left in the hands of bankers and of Establishment economists and financiers. To accomplish this goal, money must be returned to the market economy, with all monetary functions performed within the structure of the rights of private property and of the free-market economy.

It might be thought that the mix of government and money is too far gone, too pervasive in the economic system, too inextricably bound up in the economy, to be eliminated without economic destruction. Conservatives are accustomed to denouncing the "terrible simplifiers" who wreck everything by imposing simplistic and unworkable schemes. Our major problem, however, is precisely the opposite: mystification by the ruling elite of technocrats and intellectuals, who, whenever some public spokesman arises to call for large-scale tax cuts or deregulation, intone sarcastically about the dimwit masses who "seek simple solutions for complex problems." Well, in most cases, the solutions are indeed clear-cut and simple, but are deliberately obfuscated by people whom we might call "terrible complicators." In truth, taking back our money would be relatively simple and straightforward, much less difficult than the daunting task of denationalizing and decommunizing the Communist countries of Eastern Europe and the former Soviet Union.

Our goal may be summed up simply as the privatization of our monetary system, the separation of government from money and banking. The central means to accomplish this task is also straightforward: the abolition, the liquidation of the Federal Reserve System—the abolition of central banking. How could the Federal Reserve System possibly be abolished? Elementary: simply repeal its federal charter, the Federal Reserve Act of 1913. Moreover, Federal Reserve obligations (its notes and deposits) were originally redeemable in gold on demand. Since Franklin Roosevelt's monstrous actions in 1933, "dollars" issued by the Federal Reserve, and deposits by the Fed and its member banks, have no longer been redeemable in gold. Bank deposits are redeemable in Federal Reserve Notes, while Federal Reserve Notes are redeemable in nothing, or alternatively in *other* Federal Reserve Notes. Yet, these Notes are our money, our monetary "standard," and all creditors are obliged to accept payment in these fiat notes, no matter how depreciated they might be.

In addition to cancelling the redemption of dollars into gold, Roosevelt in 1933 committed another criminal act: literally confis-

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cating all gold and bullion held by Americans, exchanging them for arbitrarily valued "dollars." It is curious that, even though the Fed and the government establishment continually proclaim the obsolescence and worthlessness of gold as a monetary metal, the Fed (as well as all other central banks) clings to its gold for dear life. Our confiscated gold is still owned by the Federal Reserve, which keeps it on deposit with the Treasury at Fort Knox and other gold depositaries. Indeed, from 1933 until the 1970s, it continued to be illegal for any Americans to own monetary gold of any kind, whether coin or bullion or even in safe deposit boxes at home or abroad. All these measures, supposedly drafted for the Depression emergency, have continued as part of the great heritage of the New Deal ever since. For four decades, any gold flowing into private American hands had to be deposited in the banks, which in turn had to deposit it at the Fed. Gold for "legitimate" non-monetary purposes, such as dental fillings, industrial drills, or jewelry, was carefully rationed for such purposes by the Treasury Department.

Fortunately, due to the heroic efforts of Congressman Ron Paul it is now legal for Americans to own gold, whether coin or bullion. But the ill-gotten gold confiscated and sequestered by the Fed remains in Federal Reserve hands. How to get the gold out from the Fed? How privatize the Fed's stock of gold?

Privatizing Federal Gold

The answer is revealed by the fact that the Fed, which had promised to redeem its liabilities in gold, has been in default of that promise since Roosevelt's repudiation of the gold standard in 1933. The Federal Reserve System, being in default, should be liquidated, and the way to liquidate it is the way any insolvent business firm is liquidated: its assets are parceled out, pro rata, to its creditors. The Federal Reserve's gold assets are listed, as of October 30, 1991, at $11.1 billion. The Federal Reserve's liabilities as of that date consist of $295.5 billion in Federal Reserve Notes in circulation, and $24.4 billion in deposits owed to member banks of the Federal Reserve System, for a total of $319.9 billion. Of the assets of the Fed, other than gold, the bulk are securities of the U.S. government, which amounted to $262.5 billion. These should be written off posthaste, since they are worse than an accounting fiction: the taxpayers are forced to pay interest and principle on debt which the Federal Government owes to its own creature, the Federal Reserve. The largest remaining asset is Treasury Currency, $21.0 billion, which should also be written off, plus $10 billion in SDRs, which are mere paper creatures of international central banks, and which should be abolished as well. We are left (apart from various buildings and fixtures and other assets owned by the Fed, and amounting to some $35 billion) with $11.1 billion of assets needed to pay off liabilities totalling $319.9 billion.

Fortunately, the situation is not as dire as it seems, for the $11.1 billion of Fed gold is a purely phoney evaluation; indeed it is one of the most bizarre aspects of our fraudulent monetary system. The Fed's gold stock consists of 262.9 million ounces of gold; the dollar valuation of $11.1 billion is the result of the government's artificially evaluating its own stock of gold at $42.22 an ounce. Since the market price of gold is now about $350 an ounce, this already presents a glaring anomaly in the system.

Definitions and Debasement

Where did the $42.22 come from?

The essence of a gold standard is that the monetary unit (the "dollar," "franc," "mark," etc.) is *defined* as a certain weight of gold. Under the gold standard, the dollar or franc is not a thing-in-itself, a mere name or the name of a paper ticket issued by the State or a central bank; it is the name of a unit of weight of gold. It is every bit as much a unit of weight as the more general "ounce," "grain," or "gram." For a century before 1933, the "dollar" was defined

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as being equal to 23.22 grains of gold; since there are 480 grains to the ounce, this meant that the dollar was also defined as .048 gold ounce. Put another way, the gold ounce was defined as equal to $20.67.

In addition to taking us off the gold standard domestically, Franklin Roosevelt's New Deal "debased" the dollar by redefining it, or "lightening its weight," as equal to 13.714 grains of gold, which also defined the gold ounce as equal to $35. The dollar was still redeemable in gold to foreign central banks and governments at the lighter $35 weight; so that the United States stayed on a hybrid form of international gold standard until August 1971, when President Nixon completed the job of scuttling the gold standard altogether. Since 1971, the United States has been on a totally fiat paper standard; not coincidentally, it has suffered an unprecedented degree of peace-time inflation since that date. Since 1971, the dollar has no longer been tied to gold at a fixed weight, and so it has *become* a commodity separate from gold, free to fluctuate on world markets.

When the dollar and gold were set loose from each other, we saw the closest thing to a laboratory experiment we can get in human affairs. All Establishment economists—from Keynesians to Chicagoite monetarists—insisted that gold had long lost its value as a money, that gold had only reached its exalted value of $35 an ounce because its value was "fixed" at that amount by the government. The dollar allegedly conferred value upon gold rather than the other way round, and if gold and the dollar were ever cut loose, we would see the price of gold sink rapidly to its estimated nonmonetary value (for jewelry, dental fillings, etc.) of approximately $6 an ounce. In contrast to this unanimous Establishment prediction, the followers of Ludwig von Mises and other "gold bugs" insisted that gold was undervalued at 35 debased dollars, and claimed that the price of gold would rise far higher, perhaps as high as $70.

Suffice it to say that the gold price never fell below $35, and in fact vaulted upward, at one point reaching $850 an ounce, in recent years settling at somewhere around $350 an ounce. And yet since 1973, the Treasury and Fed have persistently evaluated their gold stock, not at the old and obsolete $35, to be sure, but only slightly higher, at $42.22 an ounce. In other words, if the U.S. government only made the simple adjustment that accounting requires of everyone—evaluating one's assets at their market price—the value of the Fed's gold stock would immediately rise from $11.1 to $92.0 billion.

From 1933 to 1971, the once very large but later dwindling number of economists championing a return to the gold standard mainly urged a return to $35 an ounce. Mises and his followers advocated a higher gold "price," inasmuch as the $35 rate no longer applied to Americans. But the majority did have a point: that any measure or definition, once adopted, should be adhered to from then on. But since 1971, with the death of the once-sacred $35 an ounce, all bets are off. While definitions once adopted should be maintained permanently, there is nothing sacred about any *initial* definition, which should be selected at its most useful point. If we wish to restore the gold standard, we are free to select whatever definition of the dollar is most useful; there are no longer any obligations to the obsolete definitions of $20.67 or $35 an ounce.

Abolishing the Fed

In particular, if we wish to liquidate the Federal Reserve System, we can select a new definition of the "dollar" sufficient to pay off all Federal Reserve liabilities at 100 cents to the dollar. In the case of our example above, we can now redefine "the dollar" as equivalent to 0.394 grains of gold, or as 1 ounce of gold equalling $1,217. With such redefinition, the entire Federal Reserve stock of gold could be minted by the Treasury into gold coins that would replace the Federal Reserve Notes in circulation, and also constitute gold coin reserves of $24.4 billion at the various commercial banks. The Federal Reserve System would be abolished, gold coins would now be in

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circulation replacing Federal Reserve Notes, gold would be the circulating medium, and gold dollars the unit of account and reckoning, at the new rate of $1,217 per ounce. Two great desiderata—the return of the gold standard, and the abolition of the Federal Reserve—would both be accomplished at one stroke.

A corollary step, of course, would be the abolition of the already bankrupt Federal Deposit Insurance Corporation. The very concept of "deposit insurance" is fraudulent; how can you "insure" an entire industry that is inherently insolvent? It would be like insuring the *Titanic* after it hit the iceberg. Some free-market economists advocate "privatizing" deposit insurance by encouraging private firms, or the banks themselves, to "insure" each others' deposits. But that would return us to the unsavory days of Florentine bank cartels, in which every bank tried to shore up each other's liabilities. It won't work; let us not forget that the first S&Ls to collapse in the 1980s were those in Ohio and in Maryland, which enjoyed the dubious benefits of "private" deposit insurance.

This issue points up an important error often made by libertarians and free-market economists who believe that *all* government activities should be privatized; or as a corollary, hold that *any* actions, so long as they are private, are legitimate. But, on the contrary, activities such as fraud, embezzlement, or counterfeiting should not be "privatized"; they should be abolished.

This would leave the commercial banks still in a state of fractional reserve, and, in the past, I have advocated going straight to 100 percent, nonfraudulent banking by raising the gold price enough to constitute 100 percent of bank demand liabilities. After that, of course, 100 percent banking would be legally required. At current estimates, establishing 100 percent to all commercial bank demand deposit accounts would require going back to gold at $2,000 an ounce; to include *all* checkable deposits would require establishing gold at $3,350 an ounce, and to establish 100 percent banking for all checking and savings deposits (which are treated by everyone as redeemable on demand) would require a gold standard at $7,500 an ounce.

But there are problems with such a solution. A minor problem is that the higher the newly established gold value over the current market price, the greater the consequent increase in gold production. This increase would cause an admittedly modest and one-shot price inflation. A more important problem is the moral one: do banks deserve what amounts to a free gift, in which the Fed, before liquidating, would bring every bank's gold assets high enough to be 100 percent of its liabilities? Clearly, the banks scarcely deserve such benign treatment, even in the name of smoothing the transition to sound money; bankers should consider themselves lucky they are not tried for embezzlement. Furthermore, it would be difficult to enforce and police 100 percent banking on an administrative basis. It would be easier, and more libertarian, to go through the courts. Before the Civil War, the notes of unsound fractional reserve banks in the United States, if geographically far from home base, were bought up at a discount by professional "money brokers," who would then travel to the banks' home base and demand massive redemption of these notes in gold.

The same could be done today, and more efficiently, using advanced electronic technology, as professional money brokers try to make profits by detecting unsound banks and bringing them to heel. A particular favorite of mine is the concept of ideological Anti-Bank Vigilante Leagues, who would keep tabs on banks, spot the errant ones, and go on television to proclaim that banks are unsound, and urge note and deposit holders to call upon them for redemption without delay. If the Vigilante Leagues could whip up hysteria and consequent bank runs, in which noteholders and depositors scramble to get their money out before the bank goes under, then so much the better: for then, the people themselves, and not simply the government, would ride herd on fractional reserve banks. The important point, it must be emphasized, is that at the

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very first sign of a bank's failing to redeem its notes or deposits on demand, the police and courts must put them out of business. Instant justice, period, with no mercy and no bailouts.

Under such a regime, it should not take long for the banks to go under, or else to contract their notes and deposits until they are down to 100 percent banking. Such monetary deflation, while leading to various adjustments, would be clearly one-shot, and would obviously have to stop permanently when the total of bank liabilities contracted down to 100 percent of gold assets. One crucial difference between inflation and deflation, is that inflation can escalate up to an infinity of money supply and prices, whereas the money supply can only deflate as far as the total amount of standard money, under the gold standard the supply of gold money. Gold constitutes an absolute floor against further deflation.

If this proposal seems harsh on the banks, we have to realize that the banking system is headed for a mighty crash in any case. As a result of the S&L collapse, the terribly shaky nature of our banking system is at last being realized. People are openly talking of the FDIC being insolvent, and of the entire banking structure crashing to the ground. And if the people ever get to realize this in their bones, they will precipitate a mighty "bank run" by trying to get their money out of the banks and into their own pockets. And the banks would then come tumbling down, because the people's money isn't there. The only thing that could save the banks in such a mighty bank run is if the Federal Reserve prints the $1.6 trillion in cash and gives it to the banks—igniting an immediate and devastating runaway inflation and destruction of the dollar.

Liberals are fond of blaming our economic crisis on the "greed of the 1980s." And yet "greed" was no more intense in the 1980s than it was in the 1970s or previous decades or than it will be in the future. What happened in the 1980s was a virulent episode of government deficits and of Federal Reserve-inspired credit expansion by the banks. As the Fed purchased assets and pumped in reserves to the banking system, the banks happily multiplied bank credit and created new money on top of those reserves.

There has been a lot of focus on poor quality bank loans: on loans to bankrupt Third World countries or to bloated and, in retrospect, unsound real estate schemes and shopping malls in the middle of nowhere. But poor quality loans and investments are always the consequence of central bank and bank-credit expansion. The all-too-familiar cycle of boom and bust, euphoria and crash, prosperity and depression, did not begin in the 1980s. Nor is it a creature of civilization or the market economy. The boom-bust cycle began in the eighteenth century with the beginnings of central banking, and has spread and intensified ever since, as central banking spread and took control of the economic systems of the Western world. Only the abolition of the Federal Reserve System and a return to the gold standard can put an end to cyclical booms and busts, and finally eliminate chronic and accelerating inflation.

Inflation, credit expansion, business cycles, heavy government debt, and high taxes are not, as Establishment historians claim, inevitable attributes of capitalism or of "modernization." On the contrary, these are profoundly anti-capitalist and parasitic excrescences grafted onto the system by the interventionist State, which rewards its banker and insider clients with hidden special privileges at the expense of everyone else.

Crucial to free enterprise and capitalism is a system of firm rights of private property, with everyone secure in the property that he earns. Also crucial to capitalism is an ethic that encourages and rewards savings, thrift, hard work, and productive enterprise, and that discourages profligacy and cracks down sternly on any invasion of property rights. And yet, as we have seen, cheap money and credit expansion gnaw away at those rights and at those virtues. Inflation overturns and transvalues values by rewarding the spendthrift and the inside fixer and by making a mockery of the older "Victorian" virtues.

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Restoring the Old Republic

The restoration of American liberty and of the Old Republic is a multi-faceted task. It requires excising the cancer of the Leviathan State from our midst. It requires removing Washington, D.C., as the power center of the country. It requires restoring the ethics and virtues of the nineteenth century, the taking back of our culture from nihilism and victimology, and restoring that culture to health and sanity. In the long run, politics, culture, and the economy are indivisible. The restoration of the Old Republic requires an economic system built solidly on the inviolable rights of private property, on the right of every person to keep what he earns, and to exchange the products of his labor. To accomplish that task, we must once again have money that is produced on the market, that is gold rather than paper, with the monetary unit a weight of gold rather than the name of a paper ticket issued ad lib by the government. We must have investment determined by voluntary savings on the market, and not by counterfeit money and credit issued by a knavish and State-privileged banking system. In short, we must abolish central banking, and force the banks to meet their obligations as promptly as anyone else. Money and banking have been made to appear as mysterious and arcane processes that must be guided and operated by a technocratic elite. They are nothing of the sort. In money, even more than the rest of our affairs, we have been tricked by a malignant Wizard of Oz. In money, as in other areas of our lives, restoring common sense and the Old Republic go hand in hand. □

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How to Return to the Gold Standard

by Bettina Bien Greaves

There is no reason, technically or economically, why the world today, even with its countless wide-ranging and complex commercial transactions, could not return to the gold standard and operate with gold money. The major obstacle is ideological.

Many people believe that it would be impossible to return to the gold standard—ever! There are just too many people in the world, they say, and the economy is too complex. Many others look on a return to the gold standard as an almost magical solution to today's major problems—big government, the welfare state, and inflation. What is the truth of the matter?

Certainly if the United States went on a gold standard, it would have to carry out many reforms. The federal government would *really* have to stop inflating, balance its budget, and abandon welfare state programs. Most voters are not ready for such reforms. And politicians, pressured by voters and special interest groups for favors, hesitate to pass them. Thus the major stumbling block to monetary reform is ideological. If this basic obstacle could be overcome, however, a return to gold money would become a realistic possibility.

Mrs. Greaves, FEE's resident scholar, bases this proposal on the understanding and recommendations presented in the writings of Hans F. Sennholz, Henry Hazlitt, Percy L. Greaves, Jr., and Ludwig von Mises.

Let's consider possible ways for transforming our present paper and credit monetary system, based on fractional reserve banking, into a gold standard. There may be better ways and worse ways. Unfortunately the science of economics cannot prescribe a correct, scientific or "right" way. It can only help us choose among alternatives by analyzing their various consequences. A review of monetary history will also be helpful.

Several methods have been suggested for returning to a gold standard. All gold standard advocates agree that the goal must be to re-introduce gold as money, while making it possible to continue honoring outstanding contracts. The principal point on which they differ is with respect to the price that should be set for gold and how any existing paper currency should be defined.

The question of re-adopting gold as money always arises because inflation has persisted for some time, prices of almost everything, including gold, have risen, and the savings of the people have been eroded. Some gold standard proponents want to return to the pre-inflation gold/money ratio. Others want to raise the gold price to some arbitrary figure and allow the monetary expansion to play "catch-up." Still others say that the least disruptive way would be to discover the current market gold/money ratio and redefine the dollar on that basis.

Returning to Gold at an Artificially High Rate

Great Britain suspended specie payments in 1797 and inflated during the Napoleonic Wars. She finally returned to the gold standard in 1821, 24 years later. On the theory that it was only honorable to recognize debts made in British gold pounds at the old ratio, she re-established the 1797 gold/pound ratio. However, not all the debts outstanding in 1821 dated from before 1797. Many loans had been made in the interim. Persons who had borrowed relatively cheap inflated British pounds, then had to pay back their loans in higher-valued gold pounds. This worked a special hardship on tenants, farmers, merchants and others.

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Britain abandoned the gold standard again in World War I. Before 1914, London had been the world's financial center. When the war started in August, shipments to England of gold, silver, and goods from all over the world were immediately disrupted. The shortage of funds put London's banks and stock exchange in crisis and they closed down for a few days. When they reopened, a debt moratorium was declared and the Bank Charter Act of 1844, fixing the gold/pound ratio and tying the quantity of paper pounds issued to the gold bullion reserves, was suspended. As the war continued and the government's costs increased, the government inflated more and more. By 1920, after the war was over, inflation had proceeded to such an extent that prices had tripled and the gold value of the British pound had fallen 10 percent on world markets, from US$4.86 to US$4.40.

Faced with a devalued pound that was worth less on the market than it had been, the British again chose, as they had after the Napoleonic wars, to try to return to gold at the pre-war, pre-inflation rate. On April 28, 1925, England went back on the gold standard at the artificially high rate for the pound of US$4.86. The immediate effect was to price British goods out of the world market. For instance, U.S. importers who had been paying US$4.40 to buy a British pound's worth of British wool or coal, now had to pay about 10 percent more. England was heavily dependent on exports, especially of coal, to pay for imported food and raw materials for her factories. As the cost of her goods to foreign buyers went up, they could buy less and British exports declined. Her factories and mines were hard hit. To keep the factories and mines open and men working, money wages would have had to be adjusted downward. This drop in money wages would not necessarily have affected real wages for, with the return to gold, the pound was worth more. But the unionized workers resisted and refused to work for less. Many went on the dole. And many went out on strike. Prices and production were seriously disrupted. Finally, on September 20, 1931, England announced that she would again suspend gold payments and go off the gold standard. The consequences were disastrous. The British monetary experiment played an important role in bringing about and prolonging the world depression of the 1930s.

Returning to Gold at an Artificially Low Rate

To consider returning to the gold standard in the United States at the long-since outgrown ratios of $20.67, $35.00, or even $42.42 per ounce of gold is obviously completely unrealistic. The U.S. dollar is now selling (mid-1995) at about $385 so that the value of the dollar has declined to approximately 1/385th of an ounce of gold. To re-value it at 1/20th, 1/35th or even 1/42nd of an ounce of gold would constitute an artificially high revaluation of the dollar and would undoubtedly lead to even more disastrous consequences than those resulting from the return to gold in Britain in 1925.

Realizing the problems England encountered in trying to establish an artificially high dollar/gold ratio, some gold standard advocates go to the opposite extreme and suggest an artificially low ratio. We are free, they maintain, to select any definition of the dollar we want. They then suggest dividing the quantity of gold mathematically by the total number of dollars in circulation, in commercial bank deposits, in checking accounts, and even in cashable savings accounts. By this method they arrive at several possible prices for the dollar, respectively $1,217/ounce, $2,000/ounce, $3,350/ounce, or even $7,500/ounce. Given the fact that an ounce of gold has been trading on the world market at about US$385, offering to pay any of these higher prices for a single ounce of gold would have an extremely inflationary influence. Prices would start to climb until they reflected the new dollar/gold ratio. For instance, anything that cost the equivalent of one gold ounce in today's market would soon rise to $1,217, $2,000 or whatever.

An announcement that the U.S. planned to start paying something between $1,217

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and $7,500 for an ounce of gold would immediately lead to the import of gold into this country at an unprecedented rate. It would spark a tremendous increase in gold mining, gold processing, and all related activities, to the detriment of all other production. To attempt to return to a gold standard at any such rate would be extremely disruptive of all prices and production. It would also destroy completely the value of all dollar savings and all outstanding contracts or commitments expressed in U.S. dollars. As practically all international production and trade depend on the dollar, this would bring business transactions to a halt worldwide.

Returning to Gold at the Market Rate

The goal of returning to a gold standard must be (1) to reintroduce gold and gold coins as money, without producing deflation and without causing the economy to go into shock, while permitting the fulfillment of outstanding contracts, including those of the U.S. government to its bondholders, and (2) to arrange for the transfer of gold from the government's holdings into private hands, so that gold coins would be in circulation daily. As pointed out above, before this can happen, there must be a major ideological shift in the climate of opinion. The voters must be willing to be more self-reliant and accept personal responsibility for their actions. And the politicians must refrain from asking for more government spending at every turn. *If this ideological stumbling block to establishing a gold standard could be overcome, if the people were willing to forgo welfare state spending and were determined to reform their monetary standard and introduce gold money once more in the United States, and if politicians would cooperate, then a shift from our paper and credit monetary system could be accomplished without radically disrupting the market, prices, and production.*

Advocates of the gold standard should not be deterred by the three reasons given by critics who believe a gold standard could not work: that there isn't enough gold to serve the needs of the world, with its increasing population and its expanding production and trade; that gold would be an unstable money; and that a gold standard would be expensive.

In the first place, there is no shortage of gold. The size of the world's population, and the extent of production and trade are immaterial; any amount of money will always serve all society's needs.[1] Actually, people don't care about the number of dollars, francs, marks, pesos, or yen, they have in their wallets or bank accounts; what is important to them is purchasing power. And if prices are free and flexible, the available quantity of money, whatever that may be, will be spread around among would-be buyers and sellers who bid and compete with one another until all the goods and services being offered at any one time find buyers. In this way, the available quantity of money would adjust to provide the purchasing power needed to purchase all available goods and services at the prevailing competitive market prices.

In the second place, gold would be a *much more stable* money than most paper currencies. The purchasing power of government- or bank-issued paper currency may fluctuate wildly, as the quantity is expanded or contracted in response to the "needs" of business and/or political pressures, causing prices to rise or fall sharply. Under a gold standard, there would be some slight cash-induced price increases when the quantity of gold used as money rose, as more gold was mined, refined, and processed; and there would be some slight cash-induced price declines as the quantity of gold used as money fell, when gold was withdrawn from the market to be devoted to industry, dentistry, or jewelry. However, under a gold standard, price changes due to such shifts in the quantity of money would be relatively minor and easy to anticipate, and the purchasing power per unit of gold would be more stable than under an unpredictable paper currency standard.

In the third place, although it would cost more to introduce gold into circulation than

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a paper currency that requires no backing, in the long run a gold standard is not at all expensive as compared to paper. Again and again throughout history, paper moneys have proven to be extremely wasteful and expensive; they have distorted economic calculation, destroyed people's savings, and wiped out their investments. Yale economist William Graham Sumner (1840–1910), writing long before the world had experienced the disastrous inflations of this century, estimated that "our attempts to win [cheap money] have all failed, and they have cost us, in each generation, more than a purely specie currency would have cost, if each generation had had to buy it anew."[2]

Once it is agreed that the introduction of a market gold money standard is the goal, here are the steps to take:

First: All inflation must be stopped as of a certain date. That means calling a halt also to all expansion of credit through the Federal Reserve and the commercial banks.

Second: Permit gold to be actively bought, sold, traded, imported, exported. To prevent the U.S. government from exerting undue influence, it should stay out of the market for the time being.

Third: Oscillations in the price of gold would diminish in time and the "price" would tend to stabilize. At that point a new dollar-to-gold ratio could be established and a new legal parity decreed. No one can know what the new dollar-to-gold ratio would be. However, it is likely that it would stabilize a little above the then-current world price of gold, whatever that might be.[3]

Fourth: Once a new legal ratio is established and the dollar is newly defined in terms of gold, the U.S. government and the U.S. Mints may enter the market, buying and selling gold and dollars at the new parity, and minting and selling gold coins of specified weights and fineness. Gold might well circulate side by side with other moneys, as it did during the fiat money inflation time of the French Revolution, so that parallel moneys would develop, easing the transition to gold.[4]

Fifth: The U.S. Mint should mint gold coins of certain agreed-upon fineness and of various weights—say one-tenth of an ounce, one-quarter, one-half, and one ounce, etc.—and stand ready to sell these gold coins for dollars at the established parity and to buy any gold offered for minting.[5] As old legal tender dollars were turned in for gold, they should be retired, so that gold coins would gradually begin to appear in circulation.

Sixth: The financing of the U.S. government must be divorced completely from the monetary system. Government must be prevented from spending any more than it collects in taxes or borrows from private lenders. Under no condition may the government sell any more bonds to the Federal Reserve to be turned into money and credit; monetization of the U.S. government's debt must cease! A 100 percent reserve must be held in the banks for all future deposits, i.e., for all deposits not already in existence on the first day of the reform.

Seventh: Outstanding U.S. government bonds held by non-U.S. government entities, must be fulfilled as promised.[6]

Eighth: To avoid deflation, there should not be any contraction of the quantity of money currently in existence. Thus prices and outstanding debts would not be adversely affected. U.S. government bonds held by the Federal Reserve as "backing" for Federal Reserve notes may be retained, but should not be used as the basis for further issues of notes and/or credit. No bank may be permitted to expand the total amount of its deposits subject to check or the balance of such deposits of any individual customers, whether private citizen or the U.S. Treasury, otherwise than by receiving cash deposits in gold, legal tender banknotes from the public or by receiving a check payable by another bank subject to the same limitations.[7]

Ninth: The funds collected over the years from employees and employers, ostensibly for Social Security, were spent as collected for the government's general purposes. Thus the U.S. government bonds held as a bookkeeping ploy in the so-called Social Security Trust Fund are mere window-dressing. These U.S. bonds may be canceled. To keep its "promises" to those who

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have been led to expect "Social Security" benefits in their old age, arrangements could be made to phase out the program by a number of devices, including payments from the general tax fund to current retirees, to the soon-to-be-retired and, on a gradually declining basis, to others in the system—down to, say, ages 40–45 years. The program could then be closed down. No more Social Security "benefits" would be paid out and no more taxes would be collected for "Social Security." People would have to become personally responsible for planning for their own old age and retirement. Without "Social Security" taxes to pay, they would be better able to save. Moreover, given a sound gold standard, they would be confident that their savings would not be wiped out by inflation.

After the Reform

For U.S. monetary reform to be carried out it is essential that the U.S. government balance its budget and refrain from spending more than it collects from taxes and borrows from willing lenders. The prerequisite for this, as noted above, is a change in ideology. Once the public and the politicians were determined to cut government spending, reform would become a realistic possibility.

When the United States is again on a gold standard, the old legal-tender paper money could continue to circulate until worn out when it would be returned and replaced by gold coins. New issues of paper notes would not be designated "legal tender." But they should be strictly limited, always fully convertible into gold, and issued only against 100 percent gold. Gold coins would also be in daily circulation; should they start to disappear from the market, this would serve as a warning that the government was violating its strictures and starting once more to inflate.

Those who think that a gold standard would place such rigid limits on the market that money lending would no longer be possible should be reminded that what fully convertible money precludes is not money lending *per se*. Individuals and banks would, of course, still be able to lend, but no more than the sums savers had accumulated and were willing to make available. What the gold standard prevents is the involuntary lending by savers, who are deprived in the process of some of the value of their savings, without having any choice in the matter. Fully convertible money under the gold standard prevents more than one claim to the same money from being created; while the borrower spends the money borrowed, the savers forgo spending until the borrower pays it back.

Under the gold standard, banks would have to return to their original two functions: serving as money warehouses and as money lenders, or intermediaries between savers and would-be borrowers. These two functions—money-warehousing and money-lending—should be kept entirely separate. But that will not preclude a great deal of flexibility in the field of banking. With today's modern developments, computerized record-keeping, electronic money transfers, creative ideas about arranging credit transactions, credit cards, ATM machines, and so forth, lending and borrowing, the transfer of funds and money clearings could continue to take place rapidly and smoothly under the gold standard and free banking, even as they do now. However, under a market gold standard people need no longer fear the ever-impending threat of inflation, price distortions, economic miscalculations, and serious malinvestments. □

1. "No Shortage of Gold," Hans F. Sennholz, *The Freeman*, September 1973, pp. 516–522; "How Much Money," Bettina Bien Greaves, *The Freeman*, March 1994, pp. 131–134.

2. "History of Banking in the U.S.," *The Journal of Commerce and Commercial Bulletin*, 1896, p. 472.

3. The present, mid-1995, price is in the neighborhood of US$385.

4. Louis Adolphe Thiers, *History of the French Revolution*, 7th ed. Brussels, 1838, Vol. V, p. 171; Henry Hazlitt, *The Inflation Crisis, and How to Resolve It*, Arlington House, 1978, pp. 176–178, 187–188.

5. In 1986, the U.S. government began to mint one-ounce 91.67 percent pure gold Eagles, which were labeled "Fifty Dollars" but were sold at a mark-up over the then-current world gold price. If it continued to mint such one ounce coins, however, it would seem preferable to label them in ounces rather than dollars.

6. Daniel J. Pilla, "Should We Cancel the National Debt?" in *The Freeman*, November 1995, pp. 684–688.

7. Ludwig von Mises, *The Theory of Money and Credit*, Yale, 1953, pp. 448–452; Liberty Fund, 1981, pp. 490–495.

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Central Banks, Gold, and the Decline of the Dollar

by Robert Batemarco

Are inflation, currency depreciation, and business cycles inevitable facts of life? Are they part of the very laws of nature? Or do their origins stem from the actions of man? If so, are they discoverable by economic science? And, if economics can teach us their origins, can it also teach us how to avoid them?

The particular need which all money, even fiat money which we now use, serves is to facilitate exchange. People accept money, even if it is not backed by a single grain of precious metal, because they know other people will accept it in exchange for goods and services.

But people accept the U.S. dollar today in exchange for much less than they used to. Since 1933, the U.S. dollar has lost 92 percent of its domestic purchasing power.[1] Even at its "moderate" 1994 inflation rate of 2.7 percent, the dollar will lose another half of its purchasing power by 2022. In international markets, the dollar has, since 1969, depreciated 65 percent against the Deutsche Mark, 74 percent against the Swiss franc, and 76 percent against the yen.[2] Many economists claim that this is the price we pay for "full employment." If so, I'd like to ask who among you thinks we've gotten our money's worth. We've experienced 11 recessions[3] since the advent of inflation as the normal state of affairs in 1933, with the unemployment rate reaching 10.8 percent as recently as 1982. Clearly, the demise of the business cycle—a forecast made during every boom since the 1920s—is but a mirage.

Other things being equal, if the quantity of anything is increased, the value per unit in the eyes of its users will go down. The quantity of U.S. money has increased year in and year out every year since 1933. The narrow M1 measure of the quantity of U.S. money (basically currency in circulation and balances in checking accounts) stood at $19.9 billion in 1933. By 1940, it had doubled to $39.7 billion. It surpassed $100 billion in 1946, $200 billion in 1969 (and 1946–1969 was considered a non-inflationary period), $400 billion in 1980, $800 billion in 1990, and today it stands at almost $1.2 trillion. That is over 60 times what it was in 1933.

For all practical purposes, the quantity of money is determined by the Federal Reserve System, our central bank. Its increase should come as no surprise. The Federal Reserve was created to make the quantity of money "flexible." The theory was that the quantity of money should be able to go up and down with the "needs of business."

Under the Fed, "the demands of govern-

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ment funding and refunding . . . unequivocally have set the pattern for American money management."[4] Right from the start, the Fed's supposed "independence" was compromised whenever the Treasury asserted its need for funds. In World War I, this was done indirectly as the Fed loaned reserves to banks at a lower discount rate to buy war bonds. In 1933, President Roosevelt ordered the Fed to buy up to $1 billion of Treasury bills and to maintain them in its portfolio in order to keep bond prices from falling. From 1936 to 1951, the Fed was required to maintain the yields on Treasury bills at 3/8 percent and bonds at 2.5 percent. Thereafter, the Fed was required to maintain "an orderly market" for Treasury issues.[5] Today, the Federal Reserve System owns nearly 8 percent of all U.S. Treasury debt outstanding.[6]

The Fed granted access to unprecedented resources to the federal government by creating money to finance (i.e., to monetize) its debt. It also served as a cartellization device, making it unnecessary for banks to compete with each other by restricting their expansion of credit. Before the emergence of the Fed upon the scene, a bank which expanded credit more rapidly than other banks would soon find those other banks presenting their notes or deposits for redemption. It would have to redeem these liabilities from its reserves. To safeguard their reserve holdings was one of the foremost problems which occupied the mind of bankers. The Fed, by serving as the member banks' banker, a central source of reserves and lender of last resort, made this task much easier. When the Fed created new reserves, all banks could expand together.

And expand they did. Before the Fed opened its doors in November 1914, the average reserve requirement of banks was 21.1 percent.[7] This meant that at a maximum, the private banking system could create $3.74 of new money through making loans for every $1 of gold reserves it held. Under the Fed, banks could count deposits with the Fed as reserves. The Fed, in turn, needed 35 percent gold backing against those deposits. This increased the available reserve base almost three-fold. In addition, the Fed reduced member bank reserve requirements to 11.6 percent in 1914 and to 9.8 percent in 1917.[8] At that point, $1 in gold reserves had the potential of supporting an additional $28 of loans.

Note that at this juncture in time, gold still played a role in our monetary system. Gold coins circulated, albeit rarely, and banknotes (now almost all issued by the Federal Reserve) and deposits were redeemable in gold. Gold set a limit on the extent of credit expansion, and once that limit was reached, further expansion had to cease, at least in theory. But then limits were never what central banking was about. In practice, whenever gold threatened to limit credit expansion, the government changed the rules.

Cutting off the last vestige of gold convertibility in 1971 rendered the dollar a pure fiat currency. The fate of the new paper money was determined by the whim of the people running the Fed.

The average person looks to central banks to maintain full employment and the value of the dollar. The historical record makes clear that a sound dollar was never the Fed's intention. Nor has the goal of full employment done more than provide them with a plausible excuse to inflate the currency. The Fed has certainly not covered itself with glory in achieving either goal. Should this leave us in despair? Only if there is no alternative to central banking with fiat money and fractional reserves. History, however, does provide us with an alternative which has worked in the past and can work in the future. That alternative is gold.

There is nothing about money that makes it so unique that the market could not provide it just as it provides other goods. Historically, the market *did* provide money. An economy without money, a barter economy, is grossly inefficient because of the difficulty of finding a trading partner who will accept what you have and who also has exactly what you want. There must be what economists call a "double coincidence of wants." The difficulty of finding suitable partners led traders to seek out commodities for which they could trade which were more

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marketable in the sense that more people were willing to accept them. Clearly, perishable, bulky items of uneven quality would never do. Precious metals, however, combined durability, homogeneity, and high value in small quantity. These qualities led to wide acceptance. Once people became aware of the extreme marketability of the precious metals, they could take care of the rest without any government help. Gold and silver went from being highly marketable to being universally accepted in exchange, i.e., they became "money."

If we desire a money that will maintain its value, we must have a money that cannot be created at will. This is the real key to the suitability of gold as money. Since 1492 there has never been a year in which the growth of the world gold stock increased by more than 5 percent in a single year. In this century, the average has been about 2 percent.[9] Thus with gold money, the kind of inflations that have plagued us in the twentieth century would not have occurred. Under the classic gold standard, even when only a fractional reserve was held by the banks, prices in the United States were as low in 1933 as they had been 100 years earlier. In Great Britain, which remained on the gold standard until the outbreak of World War I, prices in 1914 on the average were less than half of what they were a century earlier.[10]

Traditionally, the gold standard was not limited to one or two countries; it was an international system. With gold as money, one need not constantly be concerned with exchange rate fluctuations. Indeed, the very notion of an exchange rate is different under a gold standard than under a fiat money regime. Under fiat money, exchange rates are prices of the different national currencies in terms of one another. Under a gold standard, exchange rates are not prices at all. They are more akin to conversion units, like 12 inches per foot, since under an international gold standard, every national currency unit would represent a specific weight of the same substance, i.e., gold. As such, their relationships would be immutable. This constancy of exchange rates eliminates exchange rate risk and the need to employ real resources to hedge such risk. Under such a system, trade between people in different countries should be no more difficult than trade among people of the several states of the United States today. It is no accident that the closest the world has come to the ideal of free international trade occurred during the heyday of the international gold standard.

It is common to speak of the "collapse" of the gold standard, with the implication that it did not work. In fact, governments abandoned the gold standard because it worked precisely as it was supposed to: it prevented governments and their central banks from surreptitiously diverting wealth from its rightful owners to themselves. The commitment to maintain gold convertibility restrains credit creation, which leads to gold outflows and threatens convertibility. If government were not able to resort to the issue of fiat money created by their central banks, they would not have had the means to embark on the welfare state, and it is possible that the citizens of the United States and Europe might have been spared the horrors of the first world war. If those same governments and central banks had stood by their promises to maintain convertibility of their currencies into gold, the catastrophic post-World War I inflations would not have ensued.

In recent years, some countries have suffered so much from central banks run amok, that they have decided to dispense with those legalized counterfeiters. Yet they have not returned to the gold standard. The expedient they are using is the currency board. Argentina, Estonia, and Lithuania have all recently instituted currency boards after suffering hyperinflations. A currency board issues notes and coins backed 100 percent by some foreign currency. The board guarantees full convertibility between its currency and the foreign currency it uses as its reserves. Unlike central banks, currency boards cannot act as lenders of last resort nor can they create inflation, although they can import the inflation of the currency they hold in reserve. Typically, this is well

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below the level of inflation which caused countries to resort to a currency board in the first place. In over 150 years of experience with currency boards in over 70 countries, not a single currency board has failed to maintain full convertibility.[11]

While currency boards may be a step in the right direction for countries in the throes of central-bank-induced monetary chaos, what keeps such countries from returning to gold? For one thing, they have been taught by at least two generations of economists that the gold standard is impractical. Let's examine three of the most common objections in turn:

1. Gold is too costly. Those who allude to the high cost of gold have in mind the resource costs of mining it. They are certainly correct in saying that more resources are expended to produce a dollar's worth of gold than to produce a fiat dollar. The cost of the former at the margin is very close to a dollar, while the cost of the latter is under a cent. The flaw in this argument is that the concept of cost they employ is too narrow. The correct concept economically speaking is that of opportunity cost, defined as the value of one's best sacrificed alternative. Viewed from this perspective, the cost of fiat money is actually much greater than that of gold. The cost of fiat money is not merely the expense of printing new dollar bills. It also includes the cost of resources people use to protect themselves from the consequences of the inevitable inflation which fiat money makes possible, as well as the wasted capital entailed by the erroneous signals emitted under inflationary circumstances. The cost of digging gold out of the ground is minuscule by comparison.[12]

2. Gold supplies will not increase at the rate necessary to meet the needs of an expanding economy. With flexible prices and wages, any given amount of money is enough to accomplish money's task of facilitating exchange. Having the gold standard in place in the United States did not prevent industrial production from rising 534 percent from 1878 to 1913.[13] Thus it is a mistake to think that an increase in the quantity of money must be increased to assure economic development. Moreover, an increase in the quantity of money is not tantamount to an increase in wealth. For instance, if new paper or fiat money is introduced into the economy, prices will be affected as the new money reaches individuals who use it to outbid others for the existing stocks of sport jackets, groceries, houses, computers, automobiles, or whatever. But the monetary increase itself does not bring more goods and services into existence.

3. A gold standard would be too deflationary to maintain full employment. As for the relationship of a gold standard to full employment, the partisans of gold have both theory and history on their side. The absolute "level" of prices does not drive production and employment decisions. Rather the differences between prices of specific inputs and outputs, better known as profit margins, are keys to these decisions. It is central bank creation of fiat money which alters these margins in ways that ultimately send workers to the unemployment line. Historically, the gradual price declines which characterized the nineteenth century made way for the biggest boom in job creation the world has ever seen.

The practical issues involved in actually returning to a gold standard are complex. But one of the most common objections, determining the proper valuation of gold, is fairly minor. After all, the market values gold every day. Any gold price other than that set by the market is by definition arbitrary. If we were to repeal legal tender laws, laws which today require the public to accept paper Federal Reserve Notes in payment of all debts, and permit banks to accept deposits denominated in ounces of gold, a parallel gold-based monetary system would soon arise and operate side-by-side with the Federal Reserve's fiat money.[14]

A more difficult problem than that would be how to get the gold the government seized in 1934 back into the hands of the public. But even that surely can't be more difficult than returning the businesses seized by the Communists in Eastern Europe to their rightful owners. If the Czech Republic

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can do that, we should be able to get government-held gold back into circulation.

In all likelihood, the biggest problem gold proponents face is that people simply aren't ready to go back to gold. Most people aren't aware of the extent of our monetary disarray and many of those who are don't understand its source. Two generations of Americans have known nothing but unbacked paper as money; few realize that there is an alternative. In contrast, when the United States restored gold convertibility in 1879 and when Britain did so in 1821 and 1926, gold money was still seen as the norm. That is no longer the case.

It might take a hyperinflationary disaster to shake people's faith in fiat money. Let's hope not. In addition to the horrendous costs of such a "learning experience," it's not even a sure thing that it would lead us back to gold. Recent hyperinflations in places as disparate as Russia and Bolivia have not done so.

The desire to get something for nothing dies hard. Governments use central banks with the unlimited power to issue fiat money as their way to get something for nothing. By "sharing" some of that loot with us, those governments have convinced us that we too are getting something for nothing. Until we either wise up to the fact that governments can't give us something for nothing or, better yet, when we realize the moral folly of taking government handouts when offered, we will continue to get money as base as our desires. □

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A Solution to the Incentives War?

by Andrew Cline

In 1936, the Mississippi state legislature attempted to minimize the effects of the Great Depression by enacting the "Balance Agriculture With Industry" act, the nation's first state-sponsored economic development plan.

Fifty-nine years later, each of the 50 states runs its own economic development program, a government-controlled effort to actively recruit business. As was the case with the federal government, the role of the state governments was redefined in the 1930s. No longer were they relegated to providing infrastructure and education. Legislators of

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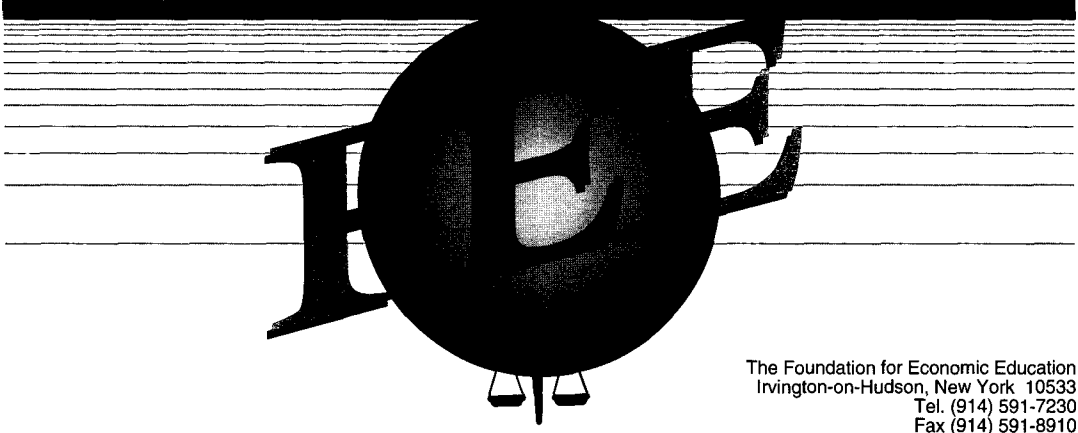

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Counting Our Blessings

Criticism is said to be a basic amusement in which we like to indulge. We are quick to point out the faults of others, denounce their views, and decry their blunders. We enjoy lamenting the state of affairs, bewailing public policies, raising our voices against legislators and regulators, and deploring their motives and misunderstandings. We rarely are mindful that it is easier to destroy than to build up.

There is much to pull down when we view our society **in the light of our ideals**. We are guided by a set of ideals which are innate or acquired, and measure all things by them. We judge our society and its institutions by our ideal concepts of wisdom, righteousness, justice, and liberty. When seen in the bright light of the ideal, we are saddened by the wide gulf that separates the ideal from the real, particularly, by how the ways and injunctions of the Founding Fathers differ from the machinations of the Hoover and Roosevelt Deals and all others since. We lament the rise of the omnipresent, omnipotent polity and the politicization of many aspects of our lives. As political command and coercion encompass our lives, individual freedom is diminished.

If we compare our conditions with those of all other nations around the globe, we are tempted to sing about America, the beautiful. A brief look at our next–door neighbors and NAFTA partners as well as our trade partners in Europe and Asia makes us appreciate our lot.

In **Canada**, the Liberal Party of Jean Chrétien, with a comfortable majority in the House of Commons, is pursuing its stale tax–and–spend objectives. It is forging ahead with social assistance, unemployment insurance, and other transfer programs. As it labors under a heavy burden of federal, provincial, and local taxation and regulation, economic life stagnates and real wages fall. Unemployment is hovering about the 10 percent mark, federal deficits are running at 5.5 percent of GDP, and the Canadian dollar is changing hands at 74 U.S. cents. Nationalized healthcare is deteriorating, with thousands of doctors leaving for the U.S. Only two economic sectors continue to prosper: government and the underground economy. In Quebec, Ontario, and the three Maritime Provinces, merchandise worth many billions of dollars moves from the United States to Canada through the Akwesasne Indian reserve straddling the border. The smuggling is bringing new life to the St. Lawrence River valley. The migration of Canadian business to U.S. border states is bringing jobs and activity to the U.S.

In **Mexico**, the political difficulties usually permeate all aspects of life. Foreign observers raise concerns about Mexico's one–party dominance, corruption, and human rights abuses. The vast majority of its population of 93 million make ends meet on labor income of less than one–fifth of U.S. incomes. The rate of inflation often exceeds 10 percent per year. In 1994 the

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peso fell by some 45 percent against the U.S. dollar, causing the financial markets to plunge precipitously, interest rates to soar, and economic activity to sink into deep depression. Millions of workers managed to escape their wretched conditions in Mexico by seeking survival as illegal aliens in the U.S.

If we compare our plight with that of our **British** friends, we cannot help counting our blessings. Although the U.K.'s economic statistics tell a story of some progress, they reveal an unemployment rate of 9 percent. The chronic economic problems that plague the country are recession, high inflation, a rising tax burden, and record levels of government borrowing, exceeding 5 percent of GDP. Wage rates are some 25 percent lower than in the United States, with interest rates generally higher by one or two percentage points. The pound sterling which used to be the world's most trusted currency is one of the weakest now, losing exchange value even against the shrinking U.S. dollar.

Social and economic conditions in **Germany** are said to be among the best in Europe, even better than in the U.S. Productivity and income per capita are about the same. The crime rate is substantially lower, but the unemployment rate much higher since the reunification of East and West Germany in 1989. Yet, the ideological and political forces of socialism are very much alive, clouding the future of Germany.

The reunification created a double–barrelled welfare state which is paving the way for a new command system. One barrel was crafted by the advocates of the "social market economy" or "middle of the road" after the pure market economy à la Erhard had transformed the country devastated by war into a wonderland of miraculous recovery. The other barrel was added after the reunification when the legislators and labor leaders turned East Germany into a huge social asylum. They decreed a currency union on an exchange rate of 1:1, which made prodigious gifts to all East Germans, and ordered a rapid wage parity in East and West, which condemned many Easterners to chronic unemployment. A massive transfer of West German wealth sustains the asylum but does not invigorate and elate its inhabitants. Many are yearning for an early return of the command system.

Japan reports a per capita production of $31,450, which compares with only $24,700 in the U.S.A. But if we bear in mind that these statistics are based on the yen/dollar exchange rate, which undervalues the dollar in Japan by more than one third in terms of purchasing power, we realize that Japanese real wages and standards of living are still lower than those in the U.S. Yet, Japanese society is one of the most harmonious and peaceful in the world. The crime rate per 100,000 population is a small fraction of the U.S. rate: homicide 1 rather than 9.3, rape 1.3 rather than 42.8, robbery 1.5 rather than 263.6. The Japanese are a naturally orderly people who obey the rules, which may contribute to the popularity of the Socialist Party, the second largest party in the House of Representatives. The Socialist Tomiichi Murayama is the prime minister who heads the government formed by three allied parties.

Looking abroad to the political, social, and economic conditions of neighbors and friends, Americans are counting their blessings. Away from home, there is no happiness for them. At home the warm winds of change are blowing. There are real indications that we are reversing the anti–business climate which has depressed economic life throughout the Democratic and Republican Deals. The sixty–year–old death grip of government is loosening. We are witnessing the reduction of government on all levels; even labor unions which build on the Marxian exploitation doctrine are in retreat. There is new hope that tomorrow will be better yet.

Hans F. Sennholz

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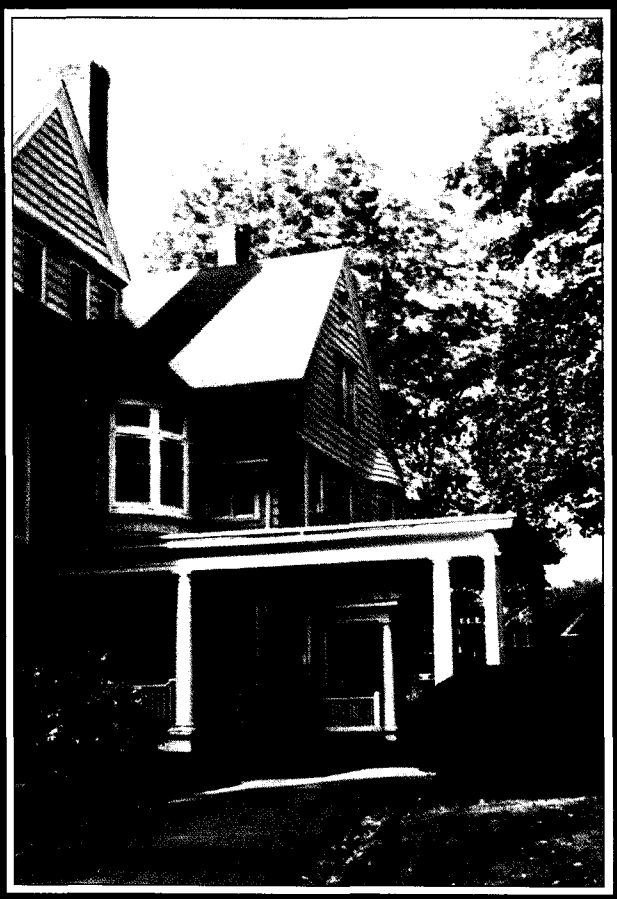

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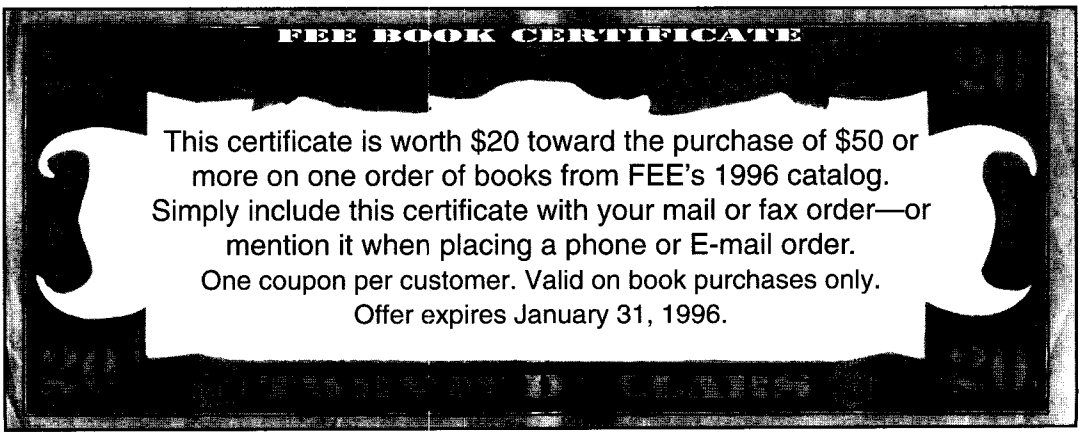
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the time re-interpreted government's role from a passive one to an active one.

One of the results has been the creation of 50 different activist state governments, each trying to lure businesses into its boundaries with packages of tax cuts, outright bribes, or both. Even local governments have gotten into the act.

Most medium-sized or large American cities have some sort of economic development program with the intention of attracting businesses. The cities throw out public incentives packages, and the perception is that the city with the most attractive package gets the most attractive company. But incentives don't always work that way on the state or local level.

In 1993, Illinois gave Sears a $178 million package in exchange for locating an office complex in the state, New York City gave $362 million in incentives packages to numerous companies in just eight months, and Alabama gave Mercedes-Benz more than $300 million to locate its first U.S. manufacturing plant within the state boundaries. Now, just two years later, government leaders are beginning to realize that those cozy deals were not a wise investment of public money. In Alabama, the entire practice of luring companies with incentives is being rethought. But in North Carolina, the threat to such programs has come from two surprising sources: the state constitution and an aware lawyer.

How the Game Works

North Carolina Governor Jim Hunt has spent $12 million in public money to lure 12,000 jobs into the state since his Industrial Recruitment Competitive Fund was created in 1992. That's about $1,000 per job. And the legislature has given him $2 million more for the next fiscal year.

While the governor is trying to draw businesses away from other states, North Carolina's cities are trying to draw businesses away from one another and from neighboring states. For the past few years, tiny towns such as Sparta have been joining forces with counties to draw companies from Virginia, South Carolina, and Tennessee. Large cities such as Charlotte and Winston-Salem have been trying to draw the larger corporations that the smaller towns cannot get.

The theory set forth by government officials to justify their spending is this: public incentives attract large companies which hire large numbers of workers, thus creating jobs for large numbers of state residents. Because jobs are created, such incentives are in the public interest, and hence the use of public money is justified. But in practice, these incentives don't live up to their promise of serving the public.

For example, North Carolina gave Quaker Oats Co. $98,000 to build a new 98-worker plant in Asheville, fulfilling the state's $1,000-per-job rule. Apparently unnoticed in the transaction was that closing the old plant, also located in North Carolina, would eliminate 70 jobs. So the state paid $98,000 to create only 28 new jobs—a total of $3,500 per job. In other cases, companies have promised the state certain numbers of jobs, but after taking the state money have failed to deliver.

For some companies, subsidized incentives have literally no bearing on location decisions, but they grab for some of the free cash anyway. Hoping for a payoff, a mill told North Carolina officials that the company's expansion project would be valued at $100,000. But when the company finally moved to Virginia—because North Carolina utility rates were too high—it revealed the value of the expansion was only $80,000. Officials of a furniture company made state economic developers aware of the generous offers they received from other states and hinted that the company would not locate in North Carolina unless the state topped the other offers. The state did not, but the company's new distribution center sits in North Carolina anyway, in Rocky Mount. There is also academic evidence to support these anecdotes. A 1994 study by two professors at University of North Carolina at Charlotte found that, among North Carolina manufacturers, the first three factors in making location deci-

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sions were local public schools, local work attitudes, and labor availability. Government-subsidized incentives ranked 22nd.

Not only are incentive packages somewhat ineffective and open to rife abuses, but they are terribly unjust. A city taxes businesses. It then uses some of that tax money to lure outside companies. Every business in the city thus contributes to its own potential harm by subsidizing its competition. Incentives-crazed politicians don't seem to realize that businesses compete for more than customers. They compete for a limited pool of qualified employees, land, shopping mall space, and so on.

Government incentives also discriminate against small businesses and recent start-ups by offering money only to companies that can create large numbers of jobs. Small and newly created companies are automatically left out of the running for the funds. How can a mom-and-pop hardware store be said to benefit when part of its tax money subsidizes the relocation next door of an aircraft carrier-sized home improvement megastore that was given $50,000 in state money for bringing 50 jobs into mom and pop's neighborhood?

Another important issue no one seems to have noticed is this: North Carolina has a serious labor shortage. There simply are not enough qualified workers in the state to fill all of the good jobs. How then is it in the public interest to bring in more unfilled jobs?

Unfortunately, the government rhetoric has been effective; it has convinced many citizens that "more jobs are good, fewer jobs are bad." Furthermore, most citizens don't even consider the problems inherent in taxing the eastern Carolina residents of Wilmington to pay for new jobs in Asheville eight hours west by Interstate.

The most effective and just way for government to promote economic development is to maintain a pro-growth business climate by keeping taxes low and treating entrepreneurs as valued rather than despised citizens. Giving tax money to individual companies creates a tilted playing field that benefits large corporations at the expense of smaller entrepreneurs, who create most of America's jobs.

Stopping the Game

One North Carolinian has seen through the ruse. The issue of locally subsidized competition caught the eye of Winston-Salem lawyer William Maready. He met several times with the leaders of Winston-Salem and Forsyth County in an attempt to understand how taxing local businesses to pay for the relocation of other businesses could be construed as in the public interest. The officials failed to convince him.

Maready filed suit as a Winston-Salem taxpayer. He charged that the city's and county's use of economic incentives violated both the equal protection and public purpose clauses of the North Carolina constitution. He argued that "the use of tax money collected from the citizens of this county to subsidize corporations for moving here or expanding here is unconstitutional, illegal, unfair, unwise—and plain bad government." Superior Court Judge Julius Rousseau agreed and ruled in Maready's favor. Government "incentives" given to big business to entice them to locate within a political entity's borders, he said, do not constitute a legitimate public use of taxpayer money. "It's an arbitrary way of spending public money." Lawyers for the city and county decried the judge's decision and indicated the state Supreme Court would vindicate their clients on appeal.

According to North Carolina's Governor, the decision was "a mistake" and "bad public policy." But Maready stands on firm ground. To date, not one incentives proponent has been able to demonstrate that government incentives create a net benefit for the general public. □

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Photo: Sherry Syphard

Conspiracy or Consensus?

In my more pessimistic moments, I can begin to understand the appeal of the so-called "conspiracy theory of history."

Sometimes there seems to be a kind of powerful force dragging modern society down. Surveying the bleak headlines, one wonders if the endless evils chronicled could be mere chance—or if they might have some conscious, common source and deliberate direction? After all, if it were only a series of "accidents," it seems that *good* things would happen at least half the time.

Over the years, I have met many decent, concerned Americans who deduce that the world is in the grip of a powerful, malevolently directed conspiracy. Logic seems to suggest that such plotters must be few (or else there would be defectors), at the pinnacles of power (or else they couldn't control things), malevolent (how else to explain the horrors in the headlines?), and supercompetent (for all the preceding reasons).

Many thus infer that a handful of the "high and mighty" spend their days behind closed doors around conference tables, carving up maps of the world.

Is this a valid explanation of current events? And even if it isn't, what's the harm in holding such a view?

The second question is the easier to answer. Successfully remedying the ills of the world depends upon their accurate diagnosis. It makes a great deal of difference if we believe that social evils are caused by widespread economic ignorance—or false philosophical ideas—or personal immorality—or the American two-party system—or a band of conspirators. Each theory logically implies a different response: economic education, a new philosophy, moral indoctrination, a third political party, or investigative exposés. Accepting the wrong theory *guarantees* that our remedial efforts will fail and that evils will persist.

And the "conspiracy theory" is wrong:

1. False logic. All conspiracy theories depend heavily on inferences about the *motives* of certain prominent people, based upon the *outcomes* of events with which they have been associated. The assumption, invariably, is that if the outcomes are bad, those responsible must have *intended* the harm.

This does not follow. Economists from Frederic Bastiat to Henry Hazlitt have demonstrated that many popular political programs lead to *unintended consequences*—results opposite those desired by their proponents. Minimum wage laws, meant to raise workers' incomes, lead instead to unemployment. Protective tariffs, meant to foster domestic industries, lead instead to reduced living standards. And so forth.

This isn't because advocates of such policies seek mass unemployment and poverty. It's due to their ignorance of basic economics. Which

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explanation is more credible: a deliberate conspiracy of a handful of world leaders to reduce their own people to poverty—or the appalling education they received in public schools?

At the root of conspiracy theories is the premise that whatever happens is *either* the result of "accident," *or* the result of "intention." But this doesn't exhaust the logical possibilities. People often intend things—for good *or* ill—contrary to their eventual outcomes. Even would-be conspirators aren't omniscient or omnipotent.

2. Naiveté. Many enamored of conspiracy theories are ordinary people with little occasion to rub elbows with the "high and mighty." They imagine such people to be surpassingly devious and competent—just the type to hatch diabolical plots.

If they were actually to encounter international movers and shakers, they might be shocked at their ineffectuality, uncertainty, and ignorance. To believe that most world events are the result of devious deliberation, is to ascribe to so-called "world leaders" levels of competence, courage, and cunning that their own wives would find laughable.

Conspiracy theories make compelling plots for novels and movies; sly schemers make worthy adversaries for fictional heroes. We like to fantasize about villains of stature. Perhaps regrettably, villains in real life are built to far smaller specifications.

3. Explanatory elasticity. There's an impressive malleability about conspiracy theories. Whenever something occurs contrary to what the theory predicted, its proponents offer some new, more complex conspiratorial machination to explain the unruly facts.

In the 1950s, the puppeteers of world events were supposedly the "international Communist conspiracy." The conspiracy was centrally directed from Moscow, from which it extended globally like the arms of an octopus. Iron discipline held the conspirators together; highly publicized feuds among various communist nations were merely clever propaganda, meant to lull the West into complacency.

But when the Soviet Empire disintegrated, it was obvious that there had never been iron discipline and unity within or among Communist regimes—that the potent conspirators were only gray geriatrics and blundering bureaucrats, who couldn't even hold their own armed forces and secret police in line.

With the Soviet collapse, the alleged locus of the conspiracy has moved to Washington and New York. We are now to believe that our own incompetent politicians and bankers—who can't even govern their own private lives and portfolios, or agree on what to do about Bosnia or the deficit—are calculatingly, cooperatively marching us toward a One-World Government.

Yes—there is a powerful force dragging society down. But that undertow is not an international conspiracy: it's an *intellectual consensus*. What conspiratorialists fail to appreciate is the *power of ideas*.

Virtually all of our cultural leaders accept the premise of collectivism: that individual rights should be subordinated to collective might. This moral premise logically leads them to similar conclusions on a wide array of issues. But such agreement isn't the consequence of conscious collusion; it's the fruit of a philosophical consensus.

For decades, Communism thrived in the world, despite all efforts to "expose" Communist activities. Why? Because millions accepted the collectivist premise at the core of Communism. They viewed Marxists not as vicious thugs, but as *extreme idealists*.

Unless the *moral premise* of collectivism is challenged and rejected, those millions still will be drawn, as if by some inner compass, toward collectivist ends; to cooperate with like-minded people; and to fight, as immoral, anyone who stands in their path. To those of us who *are* in their path, their concerted animosity might seem a matter of design and plan. But it's actually a tribute to the power of ideas.

It is *ideas* that dictate the actions of men—and it is on the battlefield of ideas that the fate of the world will be decided. Even conspiracies depend upon agreement by the conspirators over premises and ends.

To defeat them, we must not simply expose their branches. We must expose—and pull up—their intellectual roots. □

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THE FREEMAN
IDEAS ON LIBERTY

The "Wall of Separation" Between Church and State

by Judd W. Patton

Most Americans have been conditioned to believe and to assume that the First Amendment to the U.S. Constitution requires a "wall of separation between Church and State." This concept is seldom challenged today . . . but it is not actually a part of the Constitution or any of the Amendments; it did not exist until well into the twentieth century.

The establishment and free-exercise clauses of the First Amendment state: "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof." The meaning was crystal clear to Americans and American jurisprudence for generations. Very simply, the federal government was prohibited from establishing a single national denomination above all others (a state religion—endowed with public funding, special privileges, and penalties on other faiths that reject its doctrines—as Great Britain had) and secondly, the federal government could not interfere with the individual's right to freedom of worship.

The purpose of the First Amendment was not to protect Americans from religion, it was to protect religion from government intrusion. This "understanding" is in full and obvious accord with the raison d'être of the Bill of Rights to limit the federal government's power and thereby secure the freedom of individuals and the rights of the states. The Bill of Rights was a declaration of what the federal government could *not* do.

The intent of the First Amendment could never have been to separate church and state. Virtually all state constitutions of that day required their elected officials to affirm belief in the Christian faith.[1] Not one of the states would have ratified the First Amendment in violation of their constitutions had its purpose been to separate religious principles from public life.

Quotations from the framers of the Constitution and other leaders of early America illustrate this great principle. George Washington as our first President said, "Of all the dispositions and habits which lead to political prosperity, Religion and Morality are indispensable supports." And our second President, John Adams, told us, "It is Religion and Morality alone which can establish the principles under which Freedom can securely stand." Benjamin Franklin echoed Adams' sentiment: "Only a virtuous people are capable of Freedom. As nations become corrupt and vicious, they have more need of masters."

On the same theme, Dr. Benjamin Rush, a Signer of the Declaration and a leading thinker of the period, said that, "The only foundation for a Republic is to be laid in Religion. Without this, there can be no

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virtue, and without virtue there can be no liberty." And James Wilson, who signed the Declaration and the Constitution for Pennsylvania, pointed out that "Far from being rivals or enemies, religion and law are twin sisters, friends and mutual assistants. Indeed, these two sciences run into each other. The divine law, as discovered by reason and the moral sense, forms an essential part of both."

No "Wall" Planned

Yes, it would have been impossible for these God-fearing men to have deliberately built a "Wall of Separation" between church and state. Here is how the phrase and eventually the concept of this "wall of separation" originated.

In 1801, the Danbury Baptist Association wrote a letter to President Thomas Jefferson. They were alarmed about a rumor. Was a national denomination soon to be established? Jefferson responded by letter on January 1, 1802, assuring them that there was no basis to the rumor. He said, "I contemplate with solemn reverence that act of the whole American people which declared that their legislature should 'make no law respecting an establishment of religion, or prohibiting the free exercise thereof,' thus building a wall of separation between Church and State."

The Danbury Baptists were apparently satisfied. They understood the "wall" to be one-directional, protecting them and other churches from possible discrimination and harm by means of a "governmental-favored denomination" status. Nevertheless, Jefferson's eight-word phrase, "a wall of separation between Church and State," has become the defining metaphor for today's misinterpretation of the First Amendment.

Obviously, Jefferson's letter and this phrase are not part of the First Amendment and it appears far-fetched legal "reasoning" to give it the force of law or to infer intent by the delegates to the Constitutional Convention of 1787.

Jefferson's letter remained in relative obscurity until 1878, when the Supreme Court, in the case of *Reynolds vs. United States*, cited the whole letter. According to the Court, the "wall of separation between Church and State" meant, "Congress was deprived of all legislative power over mere [religious] opinions, but was left free to reach [only those religious] actions which were in violation of social duties or subversive of good order." Thus, the Court ruled against the Mormon practice of polygamy and bigamy because the Justices considered it to be subversive of good order. In other words, the Court used the concept of "separation of Church and State" to keep a general religious principle, monogamy, integral to our society.

Nearly 70 years later, in the 1947 Supreme Court case of *Everson vs. Board of Education*, a major conceptual change occurred. Citing *only* Jefferson's eight words ("a wall of separation between Church and State") and not their context or previous Supreme Court interpretations, it declared a new meaning: a separation of basic religious principles from public life. Indeed, Jefferson's eight words became the catch phrase for this new concept.

Then, in 1962 the Supreme Court, in the case of *Engel vs. Vitale*, redefined the word "church" to mean "a religious activity in public." The revolt against the roots of Americanism had begun in earnest. Separation of Church and State now meant the government (or state) and its institutions must be "protected" from religion.

Since 1962 there have been over 6,000 court cases challenging religious expressions in public institutions and public life. For example, numerous court cases ruled that verbal prayers in public schools, even if voluntary and denominationally neutral, were un-Constitutional. In 1980, it was ruled that it was un-Constitutional to hang the Ten Commandments on the walls of public school classrooms (ironically, the Ten Commandments are engraved on the chamber walls of the Supreme Court). And in Virginia, a federal court ruled a homosexual newspaper may be distributed on a high school campus, but religious newspapers may not. Needless to say, a cultural war

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of mammoth proportions was unleashed by the Everson and Engel rulings.

The Tide Is Turning

Interestingly, and significantly, the 1990s have seen more and more court decisions based on the original intent of our Founding Fathers. The Supreme Court ruled in 1990, for instance, that it is permissible to have prayer and Bible clubs at public high schools. The justices also decided in another case that premarital sexual abstinence programs, while religious in nature, can be taught in public schools. The tide appears to be turning back to our traditional, Godly American heritage. □

1. David Barton, *The Myth of Separation* (Wallbuilder Press, 1991), pp. 25–35.

The Right to Pray

by William Cage

The decisions of the Supreme Court on prayer in public schools apply only to religious practices in *public* institutions, of course. In order to understand these decisions, it is first necessary to understand the nature of a public institution under our government.

In spite of the practical deficiencies in our political system, our government operates on a democratic basis: each person has one vote to cast for the candidate of his choice. The elected officials are then supposed to do what they believe is their constituents' wishes (insofar as they believe it is the right thing to do). The political action thus taken is kept in check by the court system, to which every person has access. In this way, minorities are protected from unrestrained majority rule.

It should not be surprising that those people who profess atheism should take the matter of prayers in public schools to the courts; for after all, it was an action for which our system of government provides. Praying certainly discriminates against the atheist. And according to our philosophy and system of government, when this occurs in a public institution, he has legal recourse to the courts. This explains why the *nature* of a public institution is central to the discussion of the right to pray.

A public institution in the United States is not only publicly accessible but is also publicly supported. There is no hedging on this support: everyone contributes taxes, without regard to any specific characteristic of the individual, such as race or religion. Thus it follows that what is publicly provided should not discriminate in favor of or against people on any such basis as race or religion. Those who pay for it (theoretically, everyone) should also have the use of it. And, as they pay without regard to their race, religion, and so forth, so, too, should they have access to the public facilities without discrimination against them on such grounds. This must be the real nature of a public institution in the United States if we adhere to our principles of government.

Thus it is that in no public institution can those of us who believe in God rightfully impose our beliefs and practices on those who don't. Practically speaking, such imposition is not avoided by "voluntary"

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participation in the prayer. For whether the praying is voluntary or not, all taxpayers—atheist and theist alike—are providing shelter, light, and warmth for the theists' practices. Thus the atheist is compelled to contribute to practices in which he does not want to participate in any way; and further, everyone is aware that such practices are easily avoidable by the public institution, and are not at all necessary to accomplish the announced purpose of the institution.

A Duty to Educate?

The central issue here, hinging on the nature of public institutions, is not whether a government institution should assume the responsibility for prayer; instead, it is whether or not the government should assume the responsibility for educating the people. Just as there are a multitude of opinions on religion, there are also disagreements in virtually all areas of education as to what is right (or best). This shows up especially in colleges, where various schools have reputations for different viewpoints.

This means that in a public school where specific opinions are taught, other viewpoints are necessarily neglected: to have a certain opinion neglected is as much of an affront to the artist, economist, or political scientist who holds that opinion as it is to the atheist. Unlike the situation existing at the college level, where one can select the college which teaches the viewpoint with which the student (or parent) is most in sympathy, the public school system assigns students according to geographical location. In fact, no public school official has ever been so bold as to say that his school teaches a particular viewpoint in, for example, economics, to the exclusion of all others. Thus, no matter what method of assigning students is used, the education available to the student in any school is largely of arbitrary content; it is necessarily opinionated.

This is not consistent with our philosophical and legal concept of a public institution: public facilities cannot rightfully discriminate against certain people's opinions, for the whole of the populace pays for the institutions, without regard to whether the taxpayer agrees with the viewpoint being taught. There is again no escape offered by private schooling where public schooling is compulsorily financed, just as "voluntary praying" is no solution, for citizens pay taxes in support of public schools even if their children go to private schools.

Outside the Realm of Government Competence

The answer to the "right to pray" in public institutions is the same as the answer to the "right" to teach any particular theory or opinion on any other matter: there is no "right" involved. It is outside the realm of public institutions. Thus it is that general education, as well as religious instruction and practices, cannot be provided by public institutions within the framework of our original philosophy of government. Any institutional changes (e.g., an amendment to the Constitution) to permit prayers in public schools can only serve to distort that framework which has not only proved to be workable, but is internally consistent with and logically deducible from the original premise. The crucial question is not how we can legally institute praying in public schools, but rather can public schools rightfully provide any religious practices or teach any subject on which there is disagreement. The court decisions pointed up the difficulty in regard to religious practices; there remains, however, the broader question of whether public schools can rightfully advance certain opinions in preference to others in areas outside of religion.

Further examination of the entire matter of "rights" suggests that the education of free people should come in schools which those people choose to establish, support, and attend of their own volition. For it is only in these and similar private institutions that the individual has the *right* to pray, regardless of what other people may believe. □

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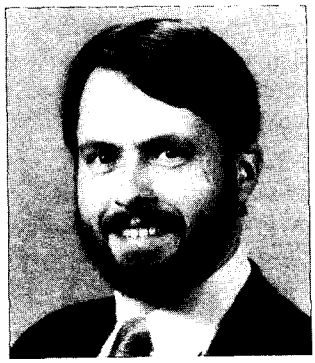

Setting an Example

Washington, D.C., is not just the home of the national government. It also contains a local government struggling with the manifold problems that afflict so many cities across America. As such, it has become a dramatic showcase of the failure of statism.

The problem is really neither the city's *nonpareil* mayor nor extraordinary bloat and waste. Rather, the problem is that even the approach of fiscal Armageddon has not convinced the governing establishment that liberty beats politics. Never mind that the city is operating largely at the sufferance of a congressionally-established financial control board. Officials still hope to survive by playing fiscal shell games, begging more money from Congress, and tinkering around the edges.

The city's pork politics is mundane, however, compared to the chaos of Washington's schools. The city's liberal white elite send their kids to private institutions; most middle-class white families live in the suburbs, where the schools are adequate. The city's poor, largely black, population, however, remains trapped in the city—and their children are stuck in city schools. The results are horrifying.

By and large, the public schools don't teach. Inner-city students are warehoused and given diplomas that some have trouble reading. Many graduates have simply wasted 12 years of their lives. No wonder so many kids view the streets, drug gangs, and unwed parenthood as better alternatives.

But that's not all. Drug use and violence are rampant in city schools. In fact, the schools are not even able to guarantee the physical safety of students. Earlier this year a 14-year-old sophomore was gunned down at Cardozo High School. The apparent murderers were 14 and 17. "I don't think we could have avoided it," said school superintendent Franklin Smith. "In the last few years, we have installed metal detectors, trained more security personnel and . . . have secured police officers to patrol in and around our schools." He sounded as if he was talking about jails instead of schools.

Educational establishment lobbyists admit that murder and mayhem at school is bad, but seem to believe it is a result of inadequate government spending, too few federal programs, and the depredations of budget-cutting visigoths. Yet, according to the Department of Education, the District spent an astounding $9,377 per student per year in 1990—more than any state and the 40 largest school districts. This is *three times the average tuition of private and parochial schools*. Even Gonzaga High School, one of the city's elite institutions, was charging only $7,100 annually.

Incredibly, these numbers understate the government's outlays. D.C. apparently twists its figures to suggest greater school enrollment and attendance. According to David Boaz of the Cato Institute, it appears

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that "District schools are spending $12,875 for every student who's actually in a classroom on any given day." For that amount of money we could send *five* students to the average private school!

What is this situation if not a crisis? Children aren't learning, money is being wasted, and kids are being murdered. Something is drastically wrong. Dire measures would seem to be called for.

The D.C. City Council, to its credit, suggested a package of reforms, including charter schools, but the school board said no. Last year Superintendent Smith proposed privatizing the management of 15 schools. The school board refused to even consider his proposal. A few desperate board members have since rallied to his side, but privatization opponents boycotted meetings to prevent a vote.

A number of congressmen are also leading a campaign to find private individuals and firms to voluntarily fix up Washington's schools by donating materials and labor. Philanthropy is a good thing, of course, but it doesn't make much sense to repaint classrooms if drug deals and murders instead of learning still occur in them. The District's educational problems obviously run much deeper than a new coat of paint.

The real solution is to abolish the government's educational monopoly. Limited privatization and voluntary vouchers, though distressingly modest, would at least point the way for additional reform. Yet the bureaucracy, supported by a surprising number of citizens who apparently can't imagine a better world, want to do nothing. Thelmiah Lee, Jr., for example, has founded a group called D.C. Save Our Schools. Said Lee: "We will not allow vouchers, will not allow charter schools in the District of Columbia." What the heck—just do more of the same, irrespective of the consequences.

This position is seemingly shared by some intellectuals who should know better. Argues Robert Wright of the *New Republic*: "Even if it's true that mindless bureaucracy ruined the public schools and that welfare-state liberals created the underclass, the fact remains that at this point neither problem will be solved without lots of money, more wisely spent." More wisely spent *by whom*? The D.C. school board, which is already pouring almost $13,000 per student into failing institutions?

Such attitudes are also reflected in the congressional debate over the Department of Education. What could be more ludicrous than a $33 billion Cabinet office for a local function? In fact, federal money typically accounts for no more than six percent of school district spending. It would make more sense to leave the money there to start with.

Of course, supporters explain that the DOE is supposed to help localities do their job. But has it? Test scores are lower and schools are more violent than when Congress created the department in 1979; U.S. students remain woefully behind their international counterparts. Concluded a task force headed by Representative Joe Scarborough: "There can be no doubt that the Department of Education did not add value to the educational performance in the 1980s. In fact, there is significant evidence that we are doing our job more poorly than ever before." Yet opposition to dismantling the Department, President Jimmy Carter's present to the National Education Association, remains fierce. In addition to those directly benefiting from its spending are generic devotees of government. For instance, columnist Marianne Means complains that "the inescapable message" of those who want to eliminate DOE "is that they want to downgrade the importance of education in America's future." But wouldn't improving the schools be a better means of emphasizing education than inflating the bureaucracy?

Don't do what we do should be the motto of Washington. The failure to understand either the moral or practical benefits of freedom infects local officials no less than the federal establishment. As a result, the nation's capital continues to exhibit government's dismal failure. □

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THE FREEMAN
IDEAS ON LIBERTY

Steal These Free Papers?

by Eric Longley

"Due to its racist nature, the *Diamondback* will not be available today—read a book!" Such was the advice on flyers left at campus distribution centers for the student newspaper at the University of Maryland at College Park. Someone had taken 10,000 copies of the paper. Two students were later disciplined by the college, but the local prosecutor did not bring charges. It was November of 1993. In the same month, 2,500–3,000 copies of the student paper were confiscated at The University of Maryland-Baltimore County. The University charged one of those responsible, but the campus police did not take action—"you can't steal free newspapers," they said.[1]

Should taking free papers, in bulk, be a crime? It should. Dealing with such theft as a crime is consistent with limited-government philosophy.

The media has focused on high-profile cases such as that of the University of Pennsylvania, where minority students seized copies of the *Daily Pennsylvanian* that contained allegedly racist material. But race is not the only motivating factor in the seizure of free papers.[2]

I did an informal tally, based on campus incident reports supplied by the Washington-based Student Press Law Center, which aims at protecting the interests of high school and college newspapers. From fall 1993 to the end of April 1995, there were 63 confiscation cases reported to the SPLC. Of these, there were 11 to 18 incidents in which the people who confiscated copies of a student newspaper were offended by the paper's attitude, real or perceived, toward ethnic minorities. In contrast, there were between 12 and 25 cases (with some overlap with the racial cases) where the motive was to suppress embarrassing news or comment about an individual or group, such as the arrest of a student or the disciplining of a professor or fraternity.[3]

Mike Hiestand, an attorney at the SPLC, says that high rates of newspaper confiscations began in 1992, and persist to this day.[4] Off campus as well as on, newspaper confiscation is an issue, an issue that "many consider to be an ongoing problem," according to Helene Siesel, Administrative Director of the Association of Alternative Newsweeklies.[5]

There are differences among the states as to how they deal with the confiscation of free newspapers.

A prosecutor in Mercer County, New Jersey, which includes Trenton, refused to consider incidents of student newspaper seizures at Trenton State College to be a crime. Prosecutor Edward Bertucio said that "[t]he newspapers were free. The public had [a] right to them. Once they are left there, people can pick them up and do anything they want to with them."[6]

A judge in Louisiana dismissed charges against a Southeastern Louisiana University student accused of taking papers, calling the affair a "college prank."[7]

Police did not respond to a confiscation

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incident in Marshall University in Huntington, West Virginia. City police sent editors of the *Statesman* to the campus police, who in turn did not make an investigation.[8]

The District Attorney responsible for the University of Northern Colorado in Greeley refused to make charges in a confiscation incident on the grounds that no one can steal a free paper.[9]

In a California case, campus police refused to act when 1,000 copies of a student paper were taken at San Jose City College. Since it was a free paper, the police felt unable to do anything.[10]

In 1992, San Francisco Police Chief Richard Hongisto had over 2,000 copies of the *San Francisco Bay Times*, a gay paper which had run a critical article and cartoon about him, seized by officers. No criminal charges were filed—the District Attorney said that the *Bay Times* had no "fair market value," hence the seizure did not constitute theft. However, Hongisto was fired and a jury later awarded damages to the paper, finding that Hongisto had violated the First Amendment.[11]

In Berkeley, California, Gene McKinney was charged with taking massive amounts of free papers and selling them to a recycling company. The publisher of one of the papers victimized by McKinney sent prosecutors a brief filed by the *Bay Times* in the Hongisto case, making arguments for protecting free papers. This may have helped persuade authorities to bring charges against McKinney.[12]

There are states where authorities have successfully treated the confiscation of free papers as theft. Four students at the University of Florida at Gainesville were convicted of theft in 1988 for taking copies of the free *Florida Review*.[13]

There are more recent examples. In the summer of 1993, two former journalism students at Pennsylvania State University pleaded guilty to criminal charges in connection with their confiscation of copies of a conservative student paper, *The Lionhearted*.[14] Two fraternity brothers at Mansfield University, also in Pennsylvania, were convicted of disorderly conduct for carrying off 1,200 copies of a student paper in March, 1995.[15]

In May 1994 it became a misdemeanor in Maryland for anyone to take copies of a newspaper, free or not, with the intent of stopping other people from reading them. A New York law imposes fines on "unauthorized person[s]" who "maliciously remove or destroy" newspapers from someone else's property, provided the newspapers come out at least once a week.[16]

So much for what the law *is*. The question is what the law should be.

Of the arguments against criminalizing the seizure of free papers, the most obvious is that "you can't steal a free paper." If a person has a right to take one copy of a free publication, he must necessarily have the right to take one hundred copies. This is not the only argument that people have voiced.

There are those who think that seizing free papers is itself a form of free expression. In an editorial, the *Washington Post* said that "[i]t can be argued" that this is true.[17] Less equivocal, the official student paper at Penn State, the *Daily Collegian*, said it definitely was an exercise of free expression to seize and burn copies of *The Lionhearted*.[18]

I consider the argument that people have a First Amendment right to confiscate papers "quite weak." The free expression interests involved are those of the vandalized papers. If would-be vandals don't like what a free newspaper says, they can express their disagreement by writing or speaking against the message they don't like, or even by pursuing legal or administrative action against the paper, which would at least give the paper a chance to defend itself in some form of hearing.

Free expression rights are not the only liberties at stake here. Private property rights, in their purest form, are involved as well. A newspaper publisher, no less than a distributor of other goods, has the right to be free of interference in getting a paper into the hands of willing customers. Those who advertise in a free newspaper have an interest in having the ads they paid for reach their intended audience.[19]

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Moreover, some newspapers which I have classified as free in this article are not, in fact, free at all. Many college newspapers are paid for in part by fees assessed from all students. If a student has already paid for a paper through her fees, she has in effect taken out a subscription to that paper. Vandals who seize so many copies that students are denied access to the paper are stealing directly from the students, and can and should be prosecuted as thieves without benefit of additional legislation.

One final case where the authorities need not wait for further legislation before acting is a case where the newspaper publisher puts up a notice reading "first copy free: additional copies $1.00," or whatever other price is deemed appropriate (by saying "only one copy per person," the publisher would in effect be setting an infinite price). In such a case, a person who takes more than one copy of the paper without paying is obviously a thief under pre-existing criminal statutes in all states. □

1. Michael Koster, "The New Campus Censors," *Columbia Journalism Review*, October 1994; Retha Hill, "2 Students at U-Md. Disciplined," *Washington Post*, February 25, 1994; Kate Kulver, "Thefts Plague Campus Press," *Quill*, October 1994; Student Press Law Center, "1993–94, 1994–95 School Years Newspaper Theft Incidents," (release dated April 18, 1995).

2. I tried to reach an NAACP spokesperson to discuss the question of minority students who seize university papers perceived as racist or insensitive. Each official I contacted referred me to another official, until finally an NAACP official told me that the matter was too touchy an issue for him to discuss with the media (telephone conversation, May 3, 1995).

3. These figures are based on information in a document sent me by the Student Press Law Center: "1993–94, 1994–95 School Years, Newspaper Theft Incidents (September 1993 through April 1995)," April 28, 1995, hereafter "Newspaper Theft Incidents."

4. Interview with Hiestand, April 28, 1995.

5. Interview with Siesel, May 5, 1995. The association represents free U.S. and Canadian weeklies.

6. Allan Wolper, "Students Steal Newspapers But Are Not Prosecuted," *Editor and Publisher*, April 24, 1993.

7. M. L. Stein, "Stealing and Trashing Student Newspapers Is Current Campus Craze," *Editor and Publisher*, September 3, 1994; Kate Culver, "Campus Fires," *Quill*, October 1993; "Newspaper Theft Incidents," p. 6, item #27.

8. *Ibid.*, p. 5, item #22.

9. *Ibid.*, p. 8, item #38.

10. "Newspaper Theft Incidents," *op. cit.*, p. 9, item #1.

11. M. L. Stein, "Police Chief Fired for Alleged Seizure of Gay Papers," *Editor and Publisher*, May 23, 1992; M. L. Stein, "Gay Newspaper Sues Over Confiscation of Papers," *Editor and Publisher*, October 3, 1992; "Ex-Police Chief Found Liable in Removal of S. F. Newspaper," *Los Angeles Daily Journal*, September 19, 1994, p. A3.

12. M. L. Stein "Man Arrested for Pilfering Newsracks," *Editor and Publisher*, April 22, 1995.

13. Allan Wolper, "Students Steal Newspapers But Are Not Prosecuted," *Editor and Publisher*, April 24, 1995; Kate Culver, "Campus Fires," *Quill*, October 1993.

14. Christopher Shea, "2 Women at Penn State Charged with Theft of Right-Wing Newspaper," *The Chronicle of Higher Education*, July 28, 1993; Michael Koster, "The New Campus Censors," *Columbia Journalism Review*, October 1994.

15. "Newspaper Theft Incidents," p. 12, item #22.

16. "There for the Taking?" Student Press Law Center *Report*, Fall 1993; NY General Business Law, 1994 Supplement, Section 396-x.

17. "Can You 'Steal' a Free Paper?" *Washington Post*, January 22, 1994, A16. I sent a fax to Meg Greenfield, of the *Post's* staff, asking her to elaborate on some of the points in this editorial. One of my questions asked her if she thought taking copies of free publications was protected by the First Amendment. I have not yet received a response to this question or any of the other questions I asked. Longley to Greenfield, May 3, 1995.

18. Quoted in Kate Culver, "Campus Fires," *Quill*, October 1993.

19. Mike Hiestand made a similar argument about advertisers in his interview. Interview with Hiestand, April 28, 1995.

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THE FREEMAN
IDEAS ON LIBERTY

Is the Unabomber an Ecobomber?

by Alan Caruba

The assault-by-mail terrorist known as the Unabomber is likely to kill again despite the decision of the *Washington Post* and the *New York Times* to publish his manifesto. The decision, prompted by the U.S. Department of Justice and the F.B.I., will only delay the inevitable.

Lost amidst the controversy surrounding the decision to publish under the threat of renewed killing, is the fact that the Unabomber's views and actions reflect the true agenda of those who, since the 1970s, have been the driving force behind the environmental movement.

The Unabomber's crusade is the logical end result of a movement which holds a deep distrust and contempt for humanity, technology, and what is generally understood to be progress in diverse areas that include agriculture, the science of genetics, medicine, computer technology, and just about anything that contributes to a thriving economy.

In a letter to *The New York Times*, he said, "Through our bombings we hope to promote social instability in industrial society, propagate anti-industrial ideas and give encouragement to those who hate the industrial system. . . . The people who are pushing all this growth and progress garbage deserve to be severely punished."

To any participant or observer of the environmental movement, it's fairly astonishing that anyone could have failed to notice that views comparable to the Unabomber's have been appearing in print for more than two decades, since the inception of the environmental movement.

In a 1970 book, *Ecotactics*, which featured an introduction by Ralph Nader, statements comparable to the Unabomber's can be found on every page. An unidentified writer for a group called ECOS rants against "an aggressive technology and economic system, which, in a rush to provide for and to profit from the human population, destroys other forms of life and contaminates our environment to a degree unprecedented in human history." The writer rejects "a world in which the individual is victimized by the impersonal machinery of his technology." While decrying violence, the writer concludes that "The only natural resource left on this planet that man seems unable to reduce to the disaster level is the capacity for discontent. Our organization, Environment!, is designed to harvest this resource and apply it to the complex problems of survival."

The ECOS writer was right at home with Nader's introductory view that Americans were living in a society of "oppression and

Mr. Caruba is the founder of the National Anxiety Center, which monitors "scare campaigns" in the media. *All rights reserved.*

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suppression" by business and industrial entities. Thus, Nader's first priority was "to deprive the polluters of their unfounded legitimacy."

In a *New York Times* article on June 30, reporter Robert D. McFadden hinted at the contents of the Unabomber's 35,000-word manifesto. It "sketches a nightmarish vision of a deteriorating society and a future in which the human race is at the mercy of intelligent machines created by computer scientists. . . . Out of the chaos, he expressed the hope that a return to 'wild nature' might prevail."

In contrast, writing in his book, *No Turning Back: Dismantling the Fantasies of Environmental Thinking*, Wallace Kaufman says, "Our progress has been the result largely of Western science and technology. Unlike cultures that have only feared and revered nature, industrialized cultures have pursued dominion over nature and subdued most of its dangerous tendencies, achieving what no other culture has done. No other tradition has developed a sophisticated technology capable of feeding six billion people and monitoring the condition of the environment." While the Unabomber was selecting his victims, Kaufman wrote, "A movement that rejects this tradition is dangerously out of touch with reality . . ."

Fellow Travelers

Who shares the Unabomber's view of industrialized society? Paul Erlich, the population doomsayer; Lester Brown whose Worldwatch Institute has been predicting worldwide environmental disaster for decades; and even our Vice President, Albert Gore, Jr. In his book, *Earth In the Balance*, Gore says, "The edifice of civilization has become astonishing complex, but as it grows ever more elaborate, we feel increasingly distant from our roots in the earth."

Since the 1970s the U.S. environmental movement has imposed a huge matrix of laws that have gone beyond setting reasonable standards for the environment. As a result, whole sectors of the economy have been impeded. Environmental laws currently represent thirty percent of Washington's entire regulatory budget. But the burden of the economy is only half the story. Disaffected, though dedicated, environmentalists have raised voices of alarm and warning concerning the beliefs that drive the Unabomber. Called "Deep Ecology," the Unabomber's philosophy fuels groups like Earth First! and fanatical animal rights advocates. In his book, *Green Delusions: An Environmentalist Critique of Radical Environmentalism*, Martin Lewis noted that deep ecology is a philosophy best labeled "antihumanist anarchism."

In fact, there are several "schools" of deep ecology or environmentalism. They include primitivism, antihumanist anarchism, and eco-Marxism. Lewis notes that "primitivists advocate not merely the return to a small-scale social order proposed by other deep ecologists, but rather the active destruction of civilization."

"Primitivist" may be a good description of the Unabomber, but it really doesn't matter what label is attached to him. His actions represent the goals that ultimately emerge from the core values shared by those who seek to direct the environmental movement worldwide. □

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THE FREEMAN
IDEAS ON LIBERTY

Maverick Mark Twain's Exhilarating American Individualism

by Jim Powell

Nobody expressed rugged American individualism better than Samuel Langhorne Clemens—Mark Twain.

This might seem surprising to those who think of him only as the author of children's classics like *The Adventures of Tom Sawyer*, *The Adventures of Huckleberry Finn*, *The Prince and the Pauper*, and *A Connecticut Yankee in King Arthur's Court*. But adults going back to the books are soon reminded how they passionately affirm the moral worth of individual human beings.

A mere author of children's books? Throughout much of Mark Twain's life, his opinions made news because he was the most famous living American. He was a friend of steel entrepreneur Andrew Carnegie. Helen Keller, amazingly cultured despite being blind and deaf, relished his company. Mark Twain introduced future English statesman Winston S. Churchill to an American audience. He published the hugely popular autobiography of General Ulysses S. Grant. English novelist Rudyard Kipling came calling at his upstate New York home. Mark Twain met illustrious people like oil entrepreneur John D. Rockefeller, Sr., biologist Charles Darwin, painter James McNeill Whistler, psychiatrist Dr. Sigmund Freud, Waltz King Johann Strauss, violinist Fritz Kreisler, pianist Artur Schnabel, sculptor Auguste Rodin, philosophers Ralph Waldo Emerson and Herbert Spencer, playwright George Bernard Shaw, poets Alfred Lord Tennyson and Henry Wadsworth Longfellow, novelists Henry James and Ivan Turgenev, inventors Nikola Tesla and Thomas Edison (who recorded the author's voice).

Although Mark Twain wasn't a systematic thinker, he was steadfast in his defense of liberty. He attacked slavery, supported black self-help. He spoke out for immigrant Chinese laborers who were exploited by police and judges. He acknowledged the miserable treatment of American Indians. He denounced anti-Semitism. He was for women's suffrage. Defying powerful politicians like Theodore Roosevelt, Mark Twain spearheaded the opposition to militarism. During his last decade, he served as vice president of the Anti-Imperialist League. "I am a moralist in disguise," he wrote, "it gets me into heaps of trouble when I go thrashing around in political questions."

He shared the capitalist dream. He spec-

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ulated in mining stocks. He started a publishing company. He functioned as a venture capitalist providing about $50,000 a year to inventors—he thought invention was perhaps the highest calling. He failed at all these and achieved financial success only as a writer and lecturer.

Mark Twain set a personal example for self-reliance. From the time he quit school at age 12, he was on his own, working as a printer's assistant, typesetter, steamboat pilot, miner, editor, and publisher. He spent four years paying off 100 percent of his business debts rather than take advantage of limited liability laws. As a writer, he succeeded entirely on his wits, without the security of academic tenure or a government grant. He financed his extensive overseas travels by freelance writing and lecturing. During his lifetime, people bought more than a million copies of his books.

Mark Twain liked what he called "reasoned selfishness." As he put it, "A man's *first* duty is to his own conscience and honor—the party of the country come second to that, and never first. . . . It is not *parties* that make or save countries or that build them to greatness—it is clean men, clean ordinary citizens . . . ."

Mark Twain displayed a devilish wit. Among his most memorable lines: "What is the difference between a taxidermist and a tax collector? The taxidermist takes only your skin . . . Public servant: Persons chosen by the people to distribute the graft . . . . There is no distinctly native American criminal class except Congress . . . . In the first place, God made idiots. This was for practice. Then He made School Boards . . . In statesmanship, get the formalities right, never mind about the moralities."

Mark Twain, Popular Hero

Mark Twain was instantly recognizable. One scholar noted that "The young man from Missouri, with drooping moustache and flaming red hair, was unusually garbed in a starched, brown linen duster reaching to his ankles, and he talked and gesticulated so much that people who did not know him thought he was always drunk."

Mark Twain was a popular hero because people didn't just read his works. They saw him on lecture platforms in Europe, Asia, Africa and Australia. "Mark Twain steals unobtrusively on to the platform," wrote one reporter in April 1896, "dressed in the regulation evening clothes, with the trouser-pockets cut high up, into which he occasionally dives both hands. He bows with a quiet dignity to the roaring cheers. . . . He speaks slowly, lazily, and wearily, as a man dropping off to sleep, rarely raising his voice above a conversational tone; but it has that characteristic nasal sound which penetrates to the back of the largest building. . . . To have read Mark Twain is a delight, but to have seen and heard him is a joy not readily to be forgotten."

Samuel Langhorne Clemens was born November 30, 1835 in Florida, Missouri. He was the fifth child of Jane Lampton, a plainspoken Kentucky woman from whom Sam reportedly acquired his compassion and sense of humor. His father John was a lanky, somber Tennessee lawyer-turned-grocer. He got wiped out speculating in land and other ventures. When Sam was four, the hapless family moved about 30 miles away to Hannibal, Missouri, a Mississippi River town. They had to sell their spoons and rent rooms above a drug store. Yet during the 14 years Sam lived in Hannibal, he gained experiences which inspired his greatest classics.

Clemens attended several schools until he was about 13, but his education really came from his mother. She taught him to learn on his own and respect the humanity of other people, including slaves.

Soon after John Clemens died in 1847, Sam went to work as a printer's assistant. During the next decade, he worked for printers in St. Louis, New York, Philadelphia, Keokuk (Iowa), and Cincinnati. Clemens, like Benjamin Franklin, educated himself by reading through printers' libraries. He especially loved history. The more he read, the more he reacted against intolerance and tyranny.

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Back in Hannibal, he decided to master the mysteries of the Mississippi. He got a job assisting steamboat pilot Horace Bixby who, for $500 mostly deducted from wages, taught him how to navigate the roughly 1,200 miles of the Mississippi River between New Orleans and St. Louis. During the next 17 months, Clemens learned the shape of the river, the way it looked at night and in fog.

The Civil War disrupted commerce on the Mississippi, dashing his ambitions as a steamboat pilot. Eager to help the South, in 1861, he joined a company of Missouri volunteers known as the Marion Rangers. One night they shot an unarmed, innocent horseman, and the disgusted Clemens quit.

He headed for the Nevada Territory, hoping to strike it rich by finding silver. Since that didn't happen, he wrote amusing articles about silver mining camps for Nevada's major newspaper, the *Territorial Enterprise*, which was published in Virginia City. He landed a full-time job. Initially, his articles were unsigned. Then he decided that to become a literary success, he must begin signing his articles. Pseudonyms were in vogue, so he reached back to his days as a Mississippi River pilot and thought of "Mark Twain," a term meaning two fathoms, or 12 feet—navigable water for a steamboat. His first signed article appeared February 2, 1863.

It was in Virginia City that Mark Twain met the popular humorist Artemus Ward who was on a lecture tour. His commercial success inspired Mark Twain to think about how he might make a career with his wit. Ward urged him to break into the big New York market.

He wrote his brother and sister, October 1865: "I never had but two powerful ambitions in my life. One was to be a pilot, & the other a preacher of the gospel. I accomplished the one & failed in the other, because I could not supply myself with the necessary stock in trade—i.e., religion . . . I have had a 'call' to literature, of a low order—i.e., humorous. It is nothing to be proud of, but it is my strongest suit."

After silver mining stocks he had acquired became worthless, he resolved to make the best of humorous writing. The following year, his story, "The Celebrated Jumping Frog of Calaveras County," was published in *The New York Saturday Press*, and many other publications reprinted it. Suddenly, he had a national reputation as "the wild humorist of the Pacific Slope." The *Sacramento Union* asked him to report on news in Hawaii, and he was off again. He got the idea of giving public lectures about his experiences there. He rented a San Francisco hall starting October 2, 1866, and over the next three weeks earned $1,500, which was far more than he had earned from writing.

"The Fortune of My Life"

Aboard the *Quaker City*, he met fellow passenger Charles Langdon, 18-year-old son of an Elmira, New York coal industry financier. Langdon showed Clemens a little picture of his sister Olivia—friends called her Livy. Clemens was taken by her, and soon after the ship returned to New York, Langdon introduced the two. On New Year's Eve 1867, Clemens joined Livy and the family to see Charles Dickens read selections from his novels. That evening, Clemens remarked later, referring to Livy, he had discovered "the fortune of my life."

Then Mark Twain worked on *Innocents Abroad*, a book full of wry observations about the people he had met and the things he had seen. For example, writing about Morocco: "There is no regular system of taxation, but when the Emperor or the Bashaw want money, they levy on some rich man, and he has to furnish the cash or go to prison. Therefore, few men in Morocco dare to be rich."

Sam and Livy got married at Quarry Farm, her parents' Elmira, New York estate, February 2, 1870. She was the only woman he ever loved.

They were an unlikely pair, because she was a strict Victorian. She disapproved of alcohol, tobacco, and vulgar language, vices he was well-known for. He promised only that he wouldn't smoke more than one cigar at a time. But she loved his tremendous

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enthusiasm and his refreshingly candid manner. She called him "Youth."

She became his most trusted editor. She offered her judgment on what kinds of topics readers would be interested in. She read nearly every one of his drafts and suggested changes. She provided advice about his lecture material. "Mrs. Clemens," he remarked, "has kept a lot of things from getting into print that might have given me a reputation I wouldn't care to have, and that I wouldn't have known any better than to have published."

Roughing It, a witty account of Mark Twain's travels throughout Nevada and Northern California, buoyed his reputation. In it, among other things, he lavished praise on much-abused Chinese immigrants: they "are quiet, peaceable, tractable, free from drunkedness, and they are as industrious as the day is long . . . . So long as a Chinaman has strength to use his hands he needs no support from anybody . . . . All Chinamen can read, write and cipher with easy facility—pity but all our petted *voters* could."

In 1871, the family moved to Hartford, a New England commercial and cultural center about halfway between New York and Boston. They were in Hartford more than 17 years, the period when Mark Twain wrote his most famous books. He collaborated with a neighbor, Charles Dudley Warner, to produce his first fictional work, *The Gilded Age*. Among his contributions was this shrewd passage about how political power corrupts, which applies as much to the modern welfare state as to government in his own day: "If you are a member of Congress, (no offense,) and one of your constituents who doesn't know anything, and does not want to go into the bother of learning something, and has no money, and no employment, and can't earn a living, comes besieging you for help. . . . You throw him on his country. He is his country's child, let his country support him. There is something good and motherly about Washington, the grand old benevolent Asylum for the Helpless."

By 1874, Clemens had built an eclectic three-story, 19-room red brick Hartford house which reflected his success and individuality. Part of it looked like the pilot house of a Mississippi steamboat. Clemens spent most of his time there playing billiards and entertaining his daughters Susy, Clara, and Jean (son Langdon had died as an infant). "Father would start a story about the pictures on the wall," Clara recalled. "Passing from picture to picture, his power of invention led us into countries and among human figures that held us spellbound."

The family summered at Quarry Farm, and he focused on his books. Apparently, the success of *Roughing It* suggested that he might do well drawing on other personal experiences, and he pondered his childhood days in Hannibal. His practice was to begin writing after breakfast and continue until dinner—he seldom ate lunch. Evenings, back in the main house, his family gathered around him, and he read aloud what he had written.

In 1875, when he was 40, he started his second novel: *The Adventures of Tom Sawyer*, the poor orphan boy who gets in trouble and redeems himself by being resourceful, honest, and sometimes courageous. There's a murder, another death, and Tom and his friend Huckleberry Finn fear for their lives, but the book is best-remembered as a charming story of youthful good summer times.

Soon Mark Twain began writing his masterwork, *The Adventures of Huckleberry Finn*. He found it hard going, and the book wasn't published until 1885. Unlike Tom Sawyer, this had the immediacy of a first-person story. In his distinctive colloquial manner, a poor and nearly illiterate 14-year-old son of a town drunkard told how he ran away, and encountered the escaped black slave Jim. Together they floated down the Mississippi River on a raft and got into scrapes. Like many other Southerners, Huck had considered black slaves as subhuman, and he wrote Jim's owner a letter exposing the runaway. Then he thought about Jim's humanity. He finally decided he would rather go to hell than betray Jim. He tore up the letter.

Many people considered the book trashy,

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and it was banned in Concord, Massachusetts. Today, many libraries ban it as racist—the word "nigger" occurs 189 times. But it became a classic for showing real people grappling with the vital issues of humanity and liberty. Huckleberry Finn went on to sell some 20 million copies.

Mark Twain tried public readings of his work, but initial results were a disappointment. "I supposed it would be only necessary to do like Dickens," he recalled, "get out on the platform and read from the book. I did that and made a botch of it. Written things are not for speech; their form is literary; they are stiff, inflexible and will not lend themselves to happy and effective delivery with the tongue—where their purpose is merely to entertain, not instruct; they have to be limbered up, broken up, colloquialized and turned into the common forms of unpremeditated talk—otherwise they will bore the house, not entertain it. After a week's experience with the book I laid it aside and never carried it to the platform again; but meantime I had memorized those pieces, and in delivering them from the platform they soon transformed themselves into flexible talk, with all their obstructing preciseness and formalities gone out of them for good." As a lecturer, he became an international sensation.

Financial Failure

Clemens should have enjoyed financial peace of mind, but he invested his earnings as well as his wife's inheritance on inventions and other business ventures which never panned out. His investment in a new kind of typesetter turned into a $190,000 loss. Incredibly, he failed as the publisher of his own immensely popular books. In 1894, his publishing firm went bankrupt with $94,000 of debts owed to 96 creditors. Clemens was 59, and few people bounced back at that age.

He assumed personal responsibility for the mess instead of ducking behind limited liability laws. He got invaluable help from a fan, John D. Rockefeller partner Henry Rogers, who managed the author's financial affairs. Clemens resolved to repay his creditors by generating more lecture income. He, his wife, Livy, and daughter Clara boarded a train and began a grueling cross-country tour. Lecture halls were packed. Then the family traveled to Australia, Tasmania, New Zealand, India, South Africa, and England, and everywhere he played to cheering crowds. "We lectured and robbed and raided for thirteen months," he recalled. By January 1898, he was debt-free.

Mark Twain hailed individual enterprise and spoke out against injustice wherever he found it. He persuaded Rogers to help provide money so that Helen Keller could get an education commensurate with her extraordinary ability. At Carnegie Hall, Mark Twain presided at a large gathering to support Booker T. Washington and self-help among blacks. While Mark Twain was living in Vienna (1897-1900), he defied the virulent anti-Semitic press and defended French Captain Alfred Dreyfus whom French military courts had convicted of treason because he was Jewish.

Meanwhile, Clemens suffered family tragedies. While he was lecturing in England, on August 18, 1894, his daughter Susy died of meningitis. His wife Livy, partner for 34 years, succumbed to a heart condition June 5, 1904. "During those years after my wife's death," he recalled, "I was washing about on a forlorn sea of banquets and speech-making in high and holy causes, and these things furnished me intellectual cheer and entertainment; but they got at my heart for an evening only, then left it dry and dusty."

Many critics have dismissed Mark Twain's writings from the last decade of his life as the work of a man embittered by too many tragedies. In this period, he significantly increased his output of political commentary. He attacked fashionable collectivist doctrines of "progressive" thinkers who called for more laws, bureaucrats and military adventures.

Like Lord Acton, Mark Twain demanded that the government class be held to the same moral standard as private individuals. "Our Congresses consist of Christians," he wrote

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in his little-known work *Christian Science* (1907). "In their private life they are true to every obligation of honor; yet in every session they violate them all, and do it without shame; because honor to party is above honor to themselves. In private life those men would bitterly resent—and justly—any insinuation that it would not be safe to leave unwatched money within their reach; yet you could not wound their feelings by reminding them that every time they vote ten dollars to the pension appropriation nine of it is stolen money and they the marauders."

Mark Twain made his anti-imperialist views clear at Manhattan's Waldorf-Astoria Hotel when he introduced Winston S. Churchill, the future English statesman who was about to regale Americans with his Boer War exploits. "I think that England sinned in getting into a war in South Africa which she could have avoided without loss of credit or dignity," Mark Twain declared, "just as I think we have sinned in crowding ourselves into a war in the Philippines on the same terms." Mark Twain's satirical "War Prayer" became an anthem for those who wanted to keep America out of foreign wars.

After the death of his daughter Jean in December 1909, the result of an epileptic seizure, Clemens tried to revive his spirits in Bermuda. But angina attacks, which had occurred during the previous year, intensified and became more frequent. Doctors administered morphine to relieve the pain. He boarded a ship for his final trip home. Clemens died at Stormfield, his Redding, Connecticut, house, on Thursday morning, April 21, 1910. Thousands of mourners took a last look at him, decked out in his white suit, at Brick Presbyterian Church, New York City. He was buried beside his wife in Elmira, New York.

By then, he was quite out of tune with his times. "Progressives" and Marxists certainly didn't like his brand of individualism. The public lost interest. Mark Twain's daughter Clara and his authorized biographer Albert Bigelow Paine blocked access to the author's papers. Beside Mark Twain's intimates, about the only defense came from individualist literary critic H.L. Mencken: "I believe that he was the true father of our national literature, the first genuinely American artist of the blood royal."

The situation gradually began to change. In 1962 respected University of Chicago English professor Walter Blair wrote *Mark Twain and Huck Finn*, which treated the author's Mississippi River epic as major-league literature. Before Blair's book, *The Adventures of Huckleberry Finn* rarely appeared in a college curriculum—American literature got little respect. Now Huck Finn is taught almost everywhere.

Also in 1962, Clara Clemens Samossaud died. Her Mark Twain papers—letters, speeches, original manuscripts, and unpublished works—became the property of the University of California (Berkeley). It encouraged writers to work with the material, and since then dozens of new books about Mark Twain have appeared. Moreover, Berkeley Mark Twain editors launched an ambitious scholarly project to publish everything he wrote, including papers held by other institutions and private individuals. Mark Twain Project head Robert Hirst estimates the papers could eventually fill 75 robust volumes.

Mark Twain has been raked over by the politically correct crowd, but he endures as the most beloved champion of American individualism. Unlike so many of his contemporaries, he didn't believe America was a European outpost. He cherished America as a distinct civilization. He defended liberty and justice indivisible. He promoted peace. He portrayed rugged, resourceful free spirits who overcome daunting obstacles to fulfill their destiny. His personal charm and wicked wit still make people smile. □

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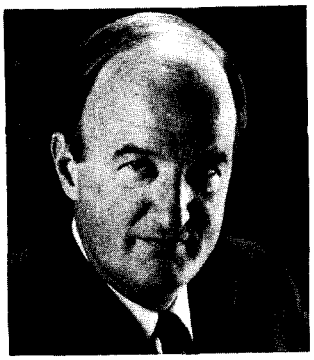
Overworked and Underpaid?



"Most blue-collar workers and midlevel white-color managers are overworked and overwhelmed."

—*Robert Reich, Secretary of Labor*
September 11, 1995

According to Labor Secretary Robert Reich, eight million Americans are holding two or more jobs, the highest figure since data were first collected 25 years ago. Work time is on the rise, while leisure time is on the decline.[1] Median wages have fallen from $479 a week to $475 a week (factoring in inflation). In fact, according to the Bureau of Labor Statistics, average real wages have been declining since the mid-1970s. "There is something terribly wrong, terribly un-American, about the fact that the economy's prosperity is bypassing so many working people," Reich asserted.

Is the American dream falling on hard times? Free-market economists dispute Reich's claims. Ohio University professor Richard Vedder points out that Reich's real-wage data do not include fringe benefits, such as medical insurance, paid vacations, and pension plans. When benefits are added, total real compensation per hour has been rising, albeit modestly since the mid-1970s. Moreover, by using another measure of human economic welfare, consumer spending rose a dramatic 40 percent per person in real terms. As Professor Vedder says, "How many Americans in 1975 had VCRs, microwaves, CD players, and home computers?"

In short, measuring the quantity, quality, and variety of goods and services is often a better measure of economic progress than average real wages.

The Dramatic Slowdown in Productivity

Still, there is much to be concerned about. Statistics from the U.S. Commerce Department clearly show that worker productivity has slowed considerably since the mid-1970s. And productivity is the key to rising or falling wages.

Many years ago, F. A. Harper, an economist and staff member of FEE, wrote a grand little book entitled *Why Wages Rise*. He demonstrates that wages aren't high because of unionization or government-imposed minimum wages. Rather, "Higher wages come from increased output per hour of work."[2] Ludwig von Mises adds, "if you increase capital, you increase the marginal productivity of labor, and the effect will be that real wages will rise."[3] Training, new production methods, and updated machinery and technology make workers more efficient and valuable.

How does a nation increase its capital invested per worker? A clue may be found in another interesting statistic: Government debt as a percentage of GDP started rising in the mid-1970s, at the same time real wages stopped growing significantly. Coincidence? I don't think so. Deficit spending crowds out saving and private capital investment and reduces the funds available for training, new tools, and new technology.

Deficit spending isn't the only factor that has slowed the rate of capital formation in the United States. Other determinants are

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(a) heavy taxation and regulation of business, (b) Social Security and other employment taxes, and (c) the tax burden on saving and investment, specifically capital gains, interest, and dividends. All of these factors have kept the U.S. savings rate at a low level, creating a serious capital shortage and slowing productivity gains.

The Hong Kong Model

Hong Kong provides an interesting case study of how the U.S. might increase productivity and thereby reignite the rise in average real wages for Americans. Real earnings in this small Asian colony have been rising steadily and rapidly over the past half-century. Immigration has been high and union membership low in Hong Kong over the years. Yet worker income keeps rising. Why? There are several reasons: A high rate of personal and business savings. Heavy emphasis on education and training. No perennial government deficits. No trade barriers. And most importantly, a flat minimum tax on personal income (15 percent) and corporate income (16.5 percent), a minimal Social Security program, and no tax on capital gains or dividends. In short, there are virtually no limits on the ability of the residents of Hong Kong to save and thus increase the capital per worker. Consequently, wages keep rising.

Here in the U.S., many pundits (including Secretary Reich) will continue to blame our lackluster performance in real wages on big corporations, foreigners, women in the workforce, and lack of union power. But the root cause is the anti-growth policies of government.

Recently there has been a strong movement to overhaul the budget and tax system in the U.S. One proposal favors a flat tax system similar to Hong Kong's. Such a policy change would cause a sharp rise in saving, investment, economic growth, and the standard of living of the American wage-earner. □

1. Juliet B. Schor, *The Overworked American: The Unexpected Decline of Leisure* (New York: Basic Books, 1991), pp. 1–5.
2. F. A. Harper, *Why Wages Rise* (Irvington, N.Y.: Foundation for Economic Education, 1957), p. 19.
3. Ludwig von Mises, *Economic Policy: Thoughts for Today and Tomorrow* (Chicago: Regnery Gateway, 1979), p. 88.

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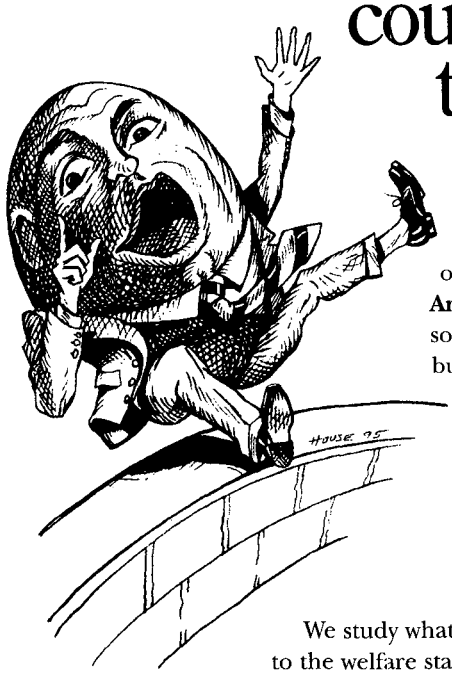

America's problems will be solved by its people, not its politicians. The central challenge for conservatives over the next 20 years is to restore the tradition of **American Citizenship** by repairing the institutions of civil society—families, communities, churches, volunteer groups, businesses, schools, local governments.

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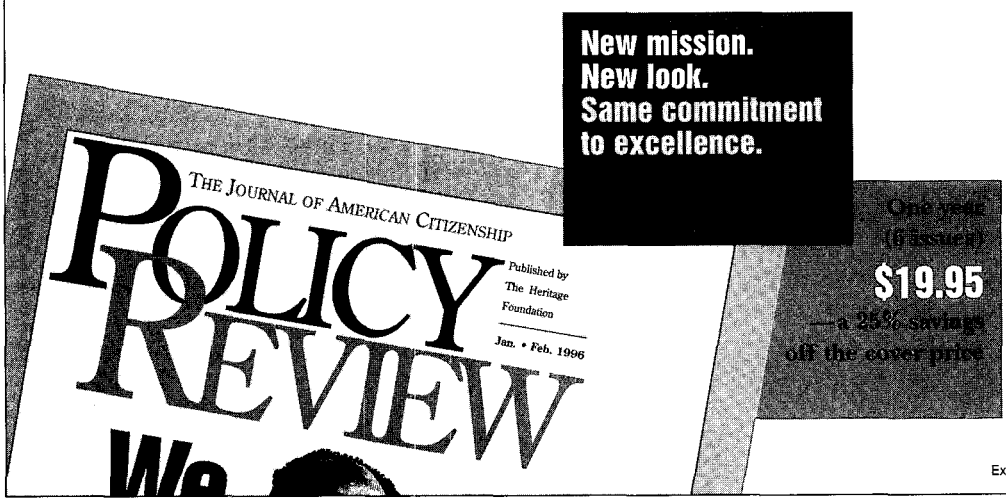

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BOOKS

Forgotten Lessons: Selected Essays of John T. Flynn

edited by Gregory P. Pavlik

Foundation for Economic Education • 1995 • 208 pages + index • $14.95 paperback

Reviewed by Paul Gottfried

Greg Pavlik has done a true service by anthologizing and commenting on the essays of John T. Flynn (1882–1964). It is remarkable that a journalist and legal scholar with Flynn's views became a regular contributor to *Collier's* and *Harper's* and a featured columnist of *The New Republic*. Despite his unfashionable stands as a critic of the New Deal and of American military involvement, Flynn remained a celebrated journalist into the post-World War II era. Major commercial presses brought out his books, and as a child, I recall hearing his feisty commentaries on the radio. Until a few years ago, when I began writing my history of American conservatism, I had not heard of Flynn since the 1960s. And then as a card-carrying adherent of *National Review*, which turned down his submissions, I had thought of Flynn as either a Communist or a Nazi. What else could this self-described isolationist have been?

As someone also consigned by the respectable conservative movement to the outer edges of perdition, I believe that the condemnations hurled at Flynn should be seen as a badge of honor. He did not compromise his classical liberal convictions; nor did he rise to the bait and accept William Buckley's price for American participation in the Cold War, "a totalitarian state on our shores for the duration."

As a historian and political theorist, I must disagree with some isolated points in his brief. I do not believe that all acts of military mobilization by the major powers in this century, and certainly not by the United States, have been deliberate maneuvers to increase the power of the welfare state or even attempts to stave off economic depression. In some cases, American and European governments have reacted to real geopolitical threats, while arousing and yielding to popular hysteria, as our own country did in the forties and fifties. In other situations, as when the Wilson administration pushed us into the Great War, cultural bias seems to have played as much of a role as material interests: the Northeastern elites were deeply pro-British and therefore anti-German.

The point that should be made is that the welfare state has benefited from all crusades for democracy. Such fits of frenzy allow public administrators and thought police to run riot, to erase any meaningful distinction between the public and private, and to widen the scope of the welfare-warfare state which Flynn described primarily in its economic dimension at mid-century.

Among his prescient observations, the most impressive are those dealing with the role of the military and technicians in the modern welfare state. Again it is important to recognize that Flynn was writing at a point in time when his perceptions were not yet fully confirmed, but he did intuit the political future from trends that were present fifty years ago. Flynn has been proven right in his view of the military in the modern welfare state, as a microcosm of social experimentation. Revenues raised for conscripted armies have been used throughout the century to support and render dependent on government much of the young male population; the military has also been a laboratory for creating a population subservient to public administration, which has made itself into a new voice of authority.

Flynn rightly notes that military expansion in Imperial Germany was favored not by the Prussian aristocracy, but by the advocates of a powerful modernized German state, including socialists. While the Junkers feared the loss of their social and professional positions in a more dynamic welfare-warfare state, the rising classes, such as workers and various dependents of the new regime, embraced a larger military budget and *Weltpolitik*. In the United States today, which has a much bigger public sector, the military establishment survives even in the absence of any danger that would require its present size. And like Scandinavia far more than Imperial Germany, it is used to carry out programs of social and cultural change put forth by feminists and other governmentally designated victims.

Until recently, journalists and academia persisted in presenting the welfare state as an achievement in scientific planning. In the 1920s Ludwig von Mises had already given the lie to this pretension and showed how thoroughly flawed were the scientific predictions made by socialist planners. But the claim to scientific accuracy among administrative technicians, as

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Flynn suggests, typically went beyond economic analysis to the reconstruction of society itself. In what might be described as an understatement about an emerging political reality, Flynn predicted that Americans may soon be restricted in their electoral choices to candidates who are certified public administrators. In point of fact, we do not have even that much choice. Unelected administrators and judicial social engineers arrange our social and political life without having to worry about electoral hurdles. Rotating parties organize the elections while making only minimal efforts to take charge of the government.

There are two strong impressions which the anthology made on me, that did not come from Flynn's own words. One is the account given by his son in the preface about his father celebrating the end of the First World War. Then an editor of the *New Haven Register* (which I grew up reading), the senior Flynn flew a plane over New Haven in November 1918 and marveled at the happy relief of his countrymen below. At that time he hoped that a victorious America would turn its energies inward and presumably restore the freedoms that President Wilson had torn from his fellow-citizens in "making the world safe for democracy."

The second impression to be noted comes from the understandably gloomy views expressed by Greg Pavlik in his introduction to Flynn's essays. Mr. Pavlik, who wrote the most comprehensive and most illuminating review of my work on American conservatism, evokes an American regime that thrives on war and taxes. He depicts Flynn as a voice in the wilderness crying out against what may be irreversible evils. The young John Flynn and the young Greg Pavlik both speak for the foundational beliefs of the American constitutional order: dual federalism, accountable administration, and the sanctity of property. Those are principles which would not have divided even the two polar figures in the American founding, Hamilton and Jefferson. It tells volumes about our own age that the editor of Flynn's essays has such deep and justified doubts about the prospects for liberty in contemporary America. Perhaps, as Flynn feared, we have moved too far into that totalitarian future produced by public administrators to entertain any reasonable hope that the present mockery of the old order can or will reverse itself. □

Paul Gottfried, is Professor of Humanities at Elizabethtown College, Elizabethtown, Pennsylvania. He is author of The Conservative Movement.

Disaster in Red: The Failure and Collapse of Socialism

edited by Richard M. Ebeling

The Foundation for Economic Education • 1995 • 379 pages • $24.95 paperback

Reviewed by Walter Block

What? Yet another book on the evils of socialism! Give me a break. There are already far too many of them; and they are unnecessary especially since the breakup of the Berlin Wall, and the move toward private enterprise in Eastern Europe, China, and, seemingly, everywhere else as well.

If this is your attitude, you are sadly mistaken. True, the forces of collectivism have been reeling of late, but there is still a need for this book, and for any other that tells the socialist story of broken promises, abject failure, economic disarray, and massive killings.

Purely on a practical level, this is a very welcome compilation. While economic collectivism has been renounced in many countries, there are several remaining which still suffer under its painful yoke: North Korea and Cuba come all too readily to mind. If the only function of *Disaster in Red* is to help relieve the misery of the peoples in these lands, it will have been well worth it. Further, while the nations of Eastern Europe have undergone drastic changes, these have not all been in the direction of the free market, limited government system. They are still wallowing almost directionless, and could do with a crash course based on the readings of this book.

Centralized economic planning is no monopoly of present and formerly communist nations. There is also our home-grown variety right here in the United States of America, where leftist messages emanate from the pulpits of many mainstream religions, from the classrooms of many highly respected universities, from the editorial and even news pages of many mainstream publications, and from politicians. We, too, need to be told again and again, in carefully crafted prose, just why it is that free markets are morally and pragmatically preferable to central commands from economic dictators.

But there are more than pragmatic political reasons for bringing out a book. There is also the little matter of the search for the truth, and the pleasure of intense study.

All this and more are afforded us by *Disaster*

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in Red. It is a compilation of 35 essays which have previously appeared in the flagship publication of the Foundation for Economic Education, *The Freeman*. It is a pleasure to have them accessible within the covers of a single volume.

The author list includes several leaders who have long been in the forefront of the intellectual and moral fight against economic oppression (Ludwig von Mises, Henry Hazlitt, Hans Sennholz, Clarence Carson, Sven Rydenfelt), several who are just making national reputations for themselves (Tom DiLorenzo, Gary Anderson, Morgan Reynolds, Yuri Maltsev, E.C. Pasour, James Bovard) and several very promising newcomers (Peter Boettke, David Prychitko, Steven Mosher): a very nice balance.

Section I is devoted to the basic economic fallacies of socialism. Mises starts off by reminding us of the benefits of capitalism (mass production, consumer sovereignty, how in a few short decades our living standards improved from agrarian mercantilistic pre-industrialism to the benefits of a modern economy). Along the way we learn of how the market disrupts caste systems, of the importance of prices, economic calculation, and incentives. Sennholz bats in the clean-up position, offering a blueprint for transforming an economy from command to peaceful cooperation.

In Section II the relationship between socialism and the arts, religion, labor unions, and pollution is explored. Consider the last of the four chapters in this section, the one by Thomas DiLorenzo. We hear so much in the news media about how "capitalist greed" is the cause of environmental degradation, it will come with some surprise (not, of course, to readers of *The Freeman*) to learn that things are worse, far worse, in the countries behind the former Iron Curtain.

The longest section in the book (III) offers a careful consideration of the tragic Russian experience with socialism. This is quite proper, as the Communists held the longest sway in this country, and, with the possible exception of China, did the most damage to the human race. Hans Sennholz provides great insight into the meaning of "economic growth" in the Soviet Union. This serves as an intellectual antidote to economists such as Paul Samuelson, who for years, before the facts became so clear that even they could no longer ignore them, contended that the U.S.S.R. was growing faster than the United States, and would soon catch up. Yuri Maltsev provides an insider's perspective on socialism as it was practiced in Russia, Peter Boettke gives evidence showing that even the communists knew their system didn't work, and Gary Anderson interprets the Soviet system along mercantilistic lines.

Finally, Section IV is given over to the Eastern European, Chinese, and Third World experiences with the philosophy of the "Evil Empire." From China to Cambodia, from Tanzania to Hungary, from Poland to Vietnam to Yugoslavia, the point is the same. A system which ignores private property rights, human rights and economic incentives, which denigrates prices, markets and profits, which prohibits individual initiative, cannot work anywhere on the globe.

Last but not least, Richard Ebeling must be singled out for the initiative in bringing us this collection, and for his stirring introduction—showing how truly inhumane was this experiment in utopianism. This alone is worth the price of admission.

Throughout the twentieth century, Mises and Hayek held a long-running intellectual battle with Oskar Lange and F. M. Taylor and others over the viability of central planning. At one point in the hostilities it was widely believed that the socialist side had "won." Whereupon the men of the left promised to build a bust of Mises, and exhibit it prominently in the main hall of the socialist planning bureau, as a testimony to the help that Mises had conferred on socialism, by trying (albeit failing) to show them the error of their ways.

It would be difficult at the time of this writing (summer 1995) to find virtually anyone in the free world who would now maintain such a position. To a great degree, this was due, one, to the internal contradictions of Communism itself, and, two, to the publications of courageous economists, many of whose writings can be found in between the covers of this book.

Perhaps it would be a good idea to translate *Disaster in Red* into the languages of those who still suffer under the yoke of Communism, and then to drop thousands of copies all throughout their countrysides. A good reason for *not* doing this is that the human race is so given to enthusiasms of this sort that perhaps we need a real live example of Communism in action for all to see—so that we are never tempted down this path again. But this would be cruel and unusual punishment for those who still suffer. Say I, translate and distribute! □

Professor Block teaches economics at the College of the Holy Cross, Worcester, Massachusetts.

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Henry Hazlitt: A Giant of Liberty

by Llewellyn H. Rockwell, Jr., Jeffrey A. Tucker, and Murray N. Rothbard

Ludwig von Mises Institute • 1994 • 158 pages • $14.95 paperback

Reviewed by William H. Peterson

Last November 28th the occasion of Henry Hazlitt's 100th birthday was celebrated at a testimonial conference and dinner in New York City. Among those presenting tributes to Hazlitt were Lawrence Kudlow, Joseph Sobran, Llewellyn Rockwell, Bettina Bien Greaves, and yours truly.

Why all the ongoing applause?

For good reason: Hazlitt possessed rare courage and insight. And, as Llewellyn Rockwell points out in this volume, through Hazlitt many an American conservative learned free-market economics at a time when statism was rampant in the land.

In 1946, for example, Hazlitt's *Economics in One Lesson* was published. Still available, it's gone through many editions here and overseas, selling around a million copies. In 1959 Hazlitt came out with *The Failure of the "New Economics."* In this book, hailed by the *Wall Street Journal* as a landmark work, Hazlitt delivered a devastating line-by-line refutation of the twentieth-century bible of liberal economics, John Maynard Keynes' *The General Theory of Employment, Interest and Money* (1936).

There are many other enduring Hazlitt contributions, as the bulk of this book, a lifetime bibliography of more than 6,000 entries, makes clear. The bibliography, compiled by Jeffrey Tucker, includes citations of a novel, works on literary criticism, treatises on economics and moral philosophy, several edited volumes, some 16 other books and many chapters in books, plus articles, commentaries, and reviews. The books were annotated by Murray Rothbard. Hazlitt himself estimated he had put out ten million words and his collected works would run to 150 volumes.

What sparked this outpouring? Hazlitt said he was initially inspired by the writing of British economist Philip Wicksteed and later by the work of philosopher Herbert Spencer. But his greatest inspiration sprang from his close friendship with Ludwig von Mises, a friendship starting with his review of the English translation of Mises' *Socialism* in the *New York Times* in 1938. Philosophically Hazlitt and Mises were as one on liberty and its implications for laissez-faire public policy.

Hazlitt's 1944 review in the *New York Times* of *The Road to Serfdom* by F. A. Hayek, a student of Mises, apparently led the *Reader's Digest* to publish a condensed version that helped catapult the book to the bestseller list and later Hayek himself to Nobel Laureate fame.

Hazlitt wrote for *The Nation*, the *Wall Street Journal*, the *New York Times*, *American Mercury*, *National Review*, *The Freeman*, *Newsweek*, among others. Throughout he maintained his editorial integrity and principled defense of a free society. He also managed to write pungently and clearly, winning an accolade from H. L. Mencken that Hazlitt was "one of the few economists in human history who could really write."

Hazlitt's classic *"One Lesson"* pinpoints the free-lunch fallacy of governments which spend and spend to create jobs and public support while forgetting that this spending unavoidably denies commensurate spending by taxpayers which would also create jobs and private support—but on a far sounder basis. That basis is seen in his book attacking the Marshall Plan in 1947, *Will Dollars Save the World?* Hazlitt saw the plan as a big rathole, an international government-to-government welfare scheme. The subsequent history of foreign aid by the U.S. World Bank, International Monetary Fund and others shows how right he was. "Aid" to Africa, for example, has helped stultify a whole continent and its forlorn people for 40 years.

Similarly his books *The Foundations of Morality* and *Man vs. the Welfare State* arrived decades before Charles Murray's *Losing Ground*. In them Hazlitt demonstrated that welfare defies human nature, that it is based on squishy ethics, that it promotes disincentives, that for its recipients it is a future-foreclosing trap, that it deters biological fathers from supporting their own families—that, in sum, it winds up promoting the very thing it seeks to discourage.

So once again Henry Hazlitt proved right thinking provides right answers. "A Giant of Liberty" is an apt eulogy of Henry Hazlitt. As Hamlet said of his father, we shall not look upon his like again. □

Dr. Peterson is an adjunct scholar at the Heritage Foundation and the Distinguished Lundy Professor of Business Philosophy Emeritus at Campbell University in North Carolina.

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The Bell Curve: Intelligence and Class Structure in American Life

by Richard J. Herrnstein and Charles Murray

The Free Press • 1994 • 845 pages • $30.00

Reviewed by Raymond J. Keating

It is difficult to think of a recent book that has stirred as much controversy as *The Bell Curve* by Richard Herrnstein and Charles Murray. Indeed, the mere idea that one can measure intelligence sends many academics into fits. The notion that intellectual capacity may vary from individual to individual leaves them feeling faint, and the authors' examination of IQ measurements among ethnic and race groups has led to near hysteria.

In fact, *The Bell Curve* is not the vicious, racist book many have described it to be. Instead it is for the most part a methodical look at the statistical relationships between measures of intelligence and various aspects of life. The authors issue an important qualifier to their analysis, which is repeated often throughout the book, but nonetheless ignored by many critics: "measures of intelligence have reliable statistical relationships with important social phenomena, but they are a limited tool for deciding what to make of any given individual. Repeat it we must, for one of the problems of writing about intelligence is how to remind readers often enough how little an IQ score tells about whether the human being next to you is someone whom you will admire or cherish. This thing we know as IQ is important but not a synonym for human excellence."

With this caveat in mind, Herrnstein and Murray go on to explore a host of human endeavors and outcomes, and their link to intelligence. They look at educational attainment, occupations, economic success, poverty, unemployment, injuries, welfare dependency, families and parenting, crime, citizenship, and more. Their conclusion regarding most all of these areas is not exactly controversial: on average, smarter individuals perform better and go farther in life.

As noted, *The Bell Curve* ventures into much more controversial territory when discussing group differences in terms of intelligence measures. They conclude after lengthy analysis that "As far as anyone has been able to determine, IQ scores on a properly administered test mean about the same thing for all ethnic groups. A substantial difference in cognitive ability distributions separates whites from blacks, and a smaller one separates East Asians from whites." The debate over this and related statements by Herrnstein and Murray will rage for years to come. Herrnstein and Murray make a key qualification most of their critics fail to comprehend, namely that regardless of IQ a "person should not be judged as a member of a group but as an individual."

Just as disturbing is the authors' vision of where our society is headed. They see an "increasingly isolated cognitive elite," a "merging of the cognitive elite with the affluent," and a "deteriorating quality of life for people at the bottom end of the cognitive ability distribution." Indeed, they go so far as to declare: "People in the bottom quartile of intelligence are becoming not just increasingly expendable in economic terms; they will sometime in the not-too-distant future become a net drag." They then describe the coming of what they term the "custodial state"—essentially an expanded welfare state with enhanced police powers. This glum assessment sees a larger but more isolated underclass, inner-city child rearing by the state, greater federal powers over social budgets and controls, and even re-emerged and virulent forms of racism.

The problem with this scenario is the same one that plagued past doom-and-gloom prophecies. The authors seem to be saying that advancements for one set of individuals—in this case those with higher measures of intelligence as the marketplace places greater value on intelligence—necessarily lead to a dismal life for others—those less intelligent. Their argument verges on the left's apocalyptic vision of capitalism allowing the rich to get richer at the expense of the poor.

In contrast, capitalism always has improved the living conditions of individuals of all abilities. Herrnstein and Murray offer few convincing arguments to the contrary. Free markets present opportunities for all types of individuals—opportunities that most of us were never able to previously envision. Herrnstein and Murray provide no new insights to lead the reader to believe that individuals with less intelligence will be unable to make a good life for themselves in the future.

However, the authors differ from the left's apocalyptic views in their criticism of the welfare state. They appropriately attack government's increasing role in the daily lives of individuals. They suggest that the responsibility for a "wide range of social functions" be taken away from centralized government and restored "to the neigh-

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borhood," that the criminal justice system be made "simpler," and that the government "stop subsidizing births to anyone, rich or poor."

Herrnstein and Murray tread a thin line when it comes to their custodial-state scenario. They recognize the woes of the welfare state, but seem to be saying that the marketplace will accentuate such woes in the future by allowing the cream of society to rise even further to the top than it has in the past. The possibility that capitalism will enhance opportunity for *all* segments of society seems to be given little chance by the authors.

A more optimistic view of the future, to which I subscribe, sees a growing recognition of the evils of the welfare state and big, centralized government, along with an enhanced appreciation for the widespread benefits of individuals interacting in a free marketplace. I think that Mr. Murray and the late Mr. Herrnstein hope that this more optimistic view prevails in the end, but their doubts, as described in *The Bell Curve* run deep. □

Mr. Keating is chief economist at the Small Business Survival Foundation, and partner with Northeast Economics and Consulting.

Race, Evolution, and Behavior

by J. Philippe Rushton

Transaction Publishers: New Brunswick, NJ • 1995 • 334 pages • $30.00

Reviewed by Patrick Groff

The common reactions to Richard Herrnstein and Charles *Murray's The Bell Curve* doubtless are familiar to most readers of *The Freeman.* No informed person should feel fully versed on the issues that *The Bell Curve* raises, however, until first reading J. Philippe Rushton's *Race, Evolution, and Behavior.* There are several reasons why Professor Rushton, who teaches at the University of Western Ontario, is an even better source of scientific data on the topic of race and intelligence.

First, Rushton's studies precede those of Herrnstein and Murray. He also has published more extensively on the subject than they have. As Rushton notes, he also began his studies of race-related differences in humans at the time that research of this nature still was welcomed.

Rushton's Ph.D. studies were a deliberate amalgam of evolutional biology, behavioral genetics, psychometrics, neuroscience, and social learning theory. He brings a broader field of reference to the question of race and intelligence than do Herrnstein/Murray.

Rushton also explains better the equation of race and intelligence by stressing the concept of "aggregation" of data. Simply put, this means the more sources of information brought to bear on this issue, the better. Rushton thus examines comparative brain size, physiological maturation rates, personality, family stability, law abidingness, sociopolitical attitudes and organizations, reproductive anatomy and behavior, and health and longevity of three racial groups: Orientals, whites, and blacks.

Rushton proposes no public policy implications for the differences in intelligence between the races that he documents. His statement that "there are no necessary policies that flow from race research," thus contrasts sharply with *The Bell Curve,* which argues otherwise.

As with *The Bell Curve,* however, Rushton's book raises the question as to whether or not it is necessary or vital to publicize the information that black people on the average score a standard deviation (15 points) below the average score of whites (100) on the normal distribution curve of intelligence, and 21 points below the average score of Orientals (106). Rushton implies that his answer would be, "On what grounds is it proper to suppress this evidence? If the science of human characteristics is aimed at specifying the precise differences among humans (there would be no need for any such scientific investigation, of course, if humans all were the same in this regard), under what guise should we expurgate the evidence of racial differences in intelligence?" As an experienced scholar, Rushton does not shy away from this battle, however, since for him it "is over nothing less than how to conceptualize human nature."

Rushton, along with the authors of *The Bell Curve,* found few social scientists today willing to accept the legitimacy of the scientific evidence on the relationship of race and intelligence, rejecting it out of hand as reactionary, or worse yet, as racist. In this regard, Rushton is accused, he reveals, of working "to justify existing social inequities." He harbors a racist motive, it is said, for selecting race and intelligence as a topic of study.

Finally, the evidence that Rushton cites is not viewed by his detractors as enhancing the main goal most commonly given of modern social science and education, i.e., the promotion of such things as cultural and ethnic pluralism, feminism, relational ethics, affirmative action as an end to meritocracy, pacifism, and democratic

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socialism. Rushton would seem to sense this, but adds that "an ideology that tacitly appeals to biological equality as a condition for human emancipation corrupts the idea of freedom." Liberty and individual differences are not mutually exclusive principles.

Decent men therefore must not tremble at the prospect of inconvenient findings emerging from scientific research—not even from studies of racial differences. This is perhaps the best reason one can find for defending the publication of controversial books such as his. Free societies have no option but to preserve science as a truly unfettered source of information. The unrestricted flow of facts is the lifeblood of their existence. □

Dr. Groff is Professor of Education Emeritus at San Diego State University.

Gold and Liberty

by Richard M. Salsman

Great Barrington, Mass.: American Institute for Economic Research • 1995 • 145 pages • $8.00 paperback

Reviewed by Robert Batemarco

About five years ago, a young banker sat next to me on the commuter train I take home from work. Noticing that I was reading about central bank policies, he engaged me in conversation on that topic. He enthused about the Fed and the "great job" it was then doing fighting inflation. "You know," I said to him, "fighting inflation is the last thing the Fed, or any central bank, for that matter, is about." Just as I was getting started, the train arrived at my station. While he seemed open to my line of reasoning, I'll never know if my words made any impact.

The discussion I was barely able to initiate on that train is ably executed from start to finish by Richard Salsman in *Gold and Liberty*. He identifies gold as the only money consistent with the free market. Central banking, on the other hand, supported by the belief that free markets are incapable of adequately serving our monetary needs, is exposed by Salsman as "nothing but central planning applied to money and banking." He uses history to illustrate that central banks were established to put more resources in the hands of spendthrift governments. This, and not preventing inflation and business cycles, is the one activity at which they have ever had any modicum of success. Salsman lays low the old canard that the classical gold standard worked only because of the tender ministrations of the Bank of England, showing rather how its sterilization policies actually broke the rules necessary for the gold standard's survival.

Gold money is more to Salsman than the key to combatting inflation, however. He sees it as indispensable to any truly free society. He quotes Henry Hazlitt to the effect that, "the gold standard is not an isolated gadget, but an integral part of the system of free enterprise and limited government, of good faith and law, of promise-keeping and the sanctity of contract." This is a far cry from the "unpredictability, politicization, inflating, and cheating," that Salsman correctly characterizes as the hallmarks of central banking.

Salsman sees free banking as another element of the integrated system of which gold is a part. In his eagerness to defend that arrangement, he sometimes overstates his case. To deny, as he does early in the book, the existence of any credit expansion or panics under a free banking regime is to ignore the nature of fractional reserves as well as the relevant history. While fractional reserves may well do less harm under free banking than central, they cannot be as stable as a system based on 100 percent reserves. A comparison of these alternatives would have been enlightening.

Despite this and some objectivist swipes at religion, *Gold and Liberty* makes a solid case that the road to liberty is paved with gold. It shows central banking, on the other hand, to be not only a gross infringement on our liberty in its own right, but to open the door to many other forms of mischief. I certainly hope my young banker friend gets to read it. □

In addition to editing the book review section of The Freeman, *Robert Batemarco is a marketing research manager in New York City and teaches economics at Marymount College in Tarrytown, New York.*

The Case Against the Fed

by Murray N. Rothbard

Ludwig von Mises Institute • 1994 • 158 pages • $9.95

Reviewed by Douglas E. French

After 80-plus years of inflation and devastating booms and busts, how do we get rid of the cause of these economic cancers? "The only way

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to do *that* is to abolish legalized counterfeiting: that is, to abolish the Federal Reserve System, and return to the gold standard," answers Murray Rothbard in his book *The Case Against the Fed.*

For students who did not have the opportunity to take United States Economic History from the late Dr. Rothbard, this slim volume will give you an idea of what his classes were like.

Dr. Rothbard never bored his students with sterile graphs or convoluted equations. Neither does this book. This story of the Federal Reserve is about good guys, bad guys, and self-serving politicians helping their rich and famous friends. Also interesting is Rothbard's discussion of nineteenth-century British case law that paved the way for fractional reserve banking. Rothbard points out that, with bailment law undeveloped in the nineteenth century, bankers were able to win three important court cases culminating with the *Foley v. Hill and Others* case in 1848. In this case, the House of Lords decided that bankers contract for an amount of money, but not necessarily to keep that particular money on hand.

Rothbard lays to rest the myth that the Panic of 1907 led to the creation of the Fed. Bankers began scheming for a central bank after William McKinley defeated William Jennings Bryan in the 1896 presidential election. Long gone were the days of the hard-money Jacksonian Democratic party, and the populist Democrat Bryan pushed for monetizing silver to increase the supply of money. Wall Street's bankers supported McKinley, not wanting inflation that they couldn't control.

The Panic of 1907 was used to whip up support for a central bank. But, it was the meetings of the Indianapolis Monetary Convention that started the political wheels turning, culminating in the passage of the Federal Reserve Act in December of 1913.

With the system in place, all that was needed was the "right" man to control the money machine. In 1914, that man was Benjamin Strong, then president of J. P. Morgan-owned Bankers Trust and best friend of Morgan partners Harry P. Davison, Dwight Morrow, and Thomas W. Lamont.

Strong ruled the Fed until his death in 1928. During World War I, he engineered a doubling of the supply of money, financing the U.S. war effort.

The continuous Fed propaganda is that a zealous public clamors for more inflation, and only the Federal Reserve's cool heads are standing in the way of a hyper-inflation armageddon. Of course, just the opposite is true. As Rothbard points out, "The culprit solely responsible for inflation, the Federal Reserve, is continually engaged in raising a hue-and-cry about 'inflation,' for which virtually *everyone else* in society seems to be responsible. What we are seeing is the old ploy by the robber who starts shouting 'Stop, thief!' and runs down the street pointing ahead at others."

Rothbard saves the fun part of dismantling the Fed for last. Liberty lovers are always being told that, "your ideas sound good, but how are you going to get there from here?" Rothbard has given us simple directions for the Fed's liquidation.

With the Fed abolished, banks would be on their own; no more lender of last resort, or taxpayer bailouts. The inflation dragon would be slain. The boom-and-bust roller coaster ride leveled.

The Case Against the Fed is part history, part polemic, and part policy paper, succeeding with all three. Murray Rothbard has written another classic. □

Mr. French is a vice president in commercial real estate lending for a bank in Las Vegas, Nevada.

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